Proxy

Notice of Annual Meeting of Shareholders

Proxy Statement

and

1992 Annual Report

Kroger

To Our Fellow Shareholders

Fiscal year 1992 was one of the most difficult in the 110-year history of The Kroger Co. Intense competition in several markets, a weak economy and the lengthy strike in Michigan led to operating results that fell slightly below 1991 levels. However, the Company finished the year with a strong fourth quarter performance.

For 1992, earnings before extraordinary items related to the early retirement of high-cost debt totaled \$101.2 million, or \$1.11 per share, compared to \$100.7 million, or \$1.12 per share, the year before. After a \$107.1 million charge for early debt retirement, Kroger had a 1992 net loss of \$5.9 million versus net income of \$79.9 million in 1991. Operating cash flow declined 6.2% to \$908.2 million. Sales increased 3.7% to \$22.1 billion and identical food store sales, excluding results from the Michigan division, increased by 0.5%.

In the fourth quarter, which contained an extra week, sales rose 11.2% and cash flow increased 11.4%. Earnings before the extraordinary charge increased to \$68.8 million, or 71 cents per share, from \$41.1 million, or 44 cents per share, in the 1991 fourth quarter.

Substantial progress was made toward our goal of refinancing high cost debt. A favorable interest rate environment enabled Kroger to issue \$1.3 billion of new debt at an average interest rate of 9.1%, the proceeds of which were used to repurchase debt with an average cost of more than 14%. Net interest expense declined to \$475 million from \$531 million in 1991.

Operating Strategy, 1993-1995

With debt refinancing almost completed, Kroger's plans over the next three years will focus on growth. Our strategy has these components:

- *An increase in new store construction.* Net food store square footage is currently expected to expand by an average of 3.5% annually. This is a substantial increase over 1990-92 growth that averaged less than 2.5% per year. The Company has budgeted approximately \$900 million for new stores, remodels and expansions in areas where we hold a leading market share.
- *Accelerated investments in cost-saving technology.* By the end of 1993, a satellite-based system will link most Kroger facilities into a real-time communications network. A number of business systems will be automated over the next three years, such as labor scheduling, electronic funds transfer, store delivery accounting, and shelf management programs.
- *Improved efficiencies in procurement and distribution systems.* Kroger and its suppliers are implementing "just in time" inventory programs that should reduce distribution costs. We have also begun to coordinate product purchasing across retail divisions to reduce product acquisition costs. This change will not interfere with each division's ability to develop merchandising programs geared to local market conditions.

We believe that these strategies will contribute to an improvement in Kroger's annual cash flow.

Labor Relations

Kroger has more than 200 labor contracts in place. The vast majority are renegotiated periodically through peaceful collective bargaining. We believe that the 10-week strike by Kroger employees in Michigan in 1992 was an aberration. Following that strike, the Company has markedly improved communications with the organizations that represent Kroger employees in order to identify and address key issues in advance of contract negotiations. We are committed to maintaining a relationship of trust with our employees, local union leadership, and national union officials.

Financial Strategy

We anticipate that Kroger's goal of replacing high-cost debt with lower-cost debt securities will be accomplished in 1993. The final step will be the redemption at par of the remaining 15½% junior subordinated debentures in October.

Early in 1993, Kroger sold an equity issue of 13.275 million shares of Kroger common stock. Proceeds from that offering will be used to retire approximately $200 million of debt. The refinancing activities and the equity issue will substantially reduce Kroger's anticipated interest expense from the 1992 level of $475 million. We expect interest expense to be in the range of $420-$430 million in 1993 and $370-$380 million in 1994.

COMMUNITY INVOLVEMENT

Kroger employees in 1992 continued to be involved in innumerable charitable, civic and educational activities. Their efforts were augmented by the Kroger Foundation, which made grants of more than $4.2 million to local and regional non-profit organizations.

Among the Company's most prominent community programs are our partnerships with more than 400 schools. Employee volunteers serve as mentors and tutors to students at the elementary, junior high and high school level. In two inner-city schools, Kroger operates "mini-stores" where students can shop for groceries and household items as a reward for good grades and attendance.

Kroger's commitment to communities has won national recognition. In January, the Company received the 1993 Award for Management Social Responsibility from the Martin Luther King Center in Atlanta —the first corporation to be so honored.

The Company's environmental efforts involve employees and the general public. Thousands of customers routinely re-use their paper shopping bags or return plastic bags for recycling. Kroger stores, offices, and manufacturing plants recycle tons of cardboard shipping containers, office paper and plastic wrap. These environmental programs have drawn widespread praise from local and state governments. For example, the Dillon-Springfield division of Dillon Companies received the 1992 Division of Energy Leadership Award from the Missouri Department of Natural Resources.

DIRECTOR CHANGES

Katherine D. Ortega, former Treasurer of the United States, was elected to the Board of Directors in 1992. Ms. Ortega will stand for election to a full, three-year term in 1993.

Jackson C. Hinds, a Kroger Director since 1975, has retired from the Board upon reaching the mandatory retirement age of 70. Mr. Hinds served Kroger with effective leadership and wise counsel during a period of sweeping change.

THE YEAR AHEAD

We are cautiously optimistic about the business environment in 1993. Economic conditions and consumer confidence appear to be improving and competition has eased in several markets. With refinancing almost accomplished, we can devote full attention to a strategy of measured growth.

Kroger is well-positioned to take advantage of opportunities in this improving environment. Our combination stores have proven their ability to compete against every alternative format. Increased capital expenditures will enable the Company to accelerate store construction and implement significant new technology. Coordinated approaches to distribution and procurement are expected to reduce costs and improve our competitive position. We believe that these strategies will generate increasing rewards for Kroger shareholders, employees, customers, and communities.

JOSEPH A. PICHLER
Chairman and
Chief Executive Officer

RICHARD L. BERE
President and
Chief Operating Officer

PROXY

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

Cincinnati, Ohio, April 5, 1993

To All Shareholders
of The Kroger Co.:

The annual meeting of shareholders of The Kroger Co. will be held at the CLARION HOTEL, 141 WEST SIXTH STREET, Cincinnati, Ohio, on May 20, 1993, at 10 A.M., for the following purposes:

1. To elect five directors to serve until the annual meeting of shareholders in 1996 or until their successors have been elected and qualified;
2. To consider and act upon a proposal to ratify the selection of auditors for the Company for the year 1993; and
3. To transact such other business as may properly be brought before the meeting; all as set forth in the Proxy Statement accompanying this Notice.

Holders of common shares of record at the close of business on March 23, 1993, will be entitled to vote at the meeting.

YOUR MANAGEMENT DESIRES TO HAVE A LARGE NUMBER OF THE SHAREHOLDERS REPRESENTED AT THE MEETING, IN PERSON OR BY PROXY. PLEASE SIGN AND DATE THE ENCLOSED PROXY AND MAIL IT AT ONCE IN THE ENCLOSED SELF-ADDRESSED ENVELOPE. NO POSTAGE IS REQUIRED IF MAILED WITHIN THE UNITED STATES.

By order of the Board of Directors,
Paul W. Heldman, Secretary

PROXY STATEMENT

Cincinnati, Ohio, April 5, 1993

The accompanying proxy is solicited by the Board of Directors of The Kroger Co., and the cost of solicitation will be borne by the Company. The Company will reimburse banks, brokers, nominees, and other fiduciaries for postage and reasonable expenses incurred by them in forwarding the proxy material to their principals. The Company has retained Hill & Knowlton, Inc., 420 Lexington Avenue, New York, New York to assist in the solicitation of proxies and will pay such firm a fee estimated at present not to exceed $15,000. Proxies may be solicited personally, or by telephone, as well as by use of the mails.

Joseph A. Pichler, Ray E. Dillon, Jr. and T. Ballard Morton, Jr., all of whom are directors of the Company, have been named members of the Proxy Committee.

The principal executive offices of The Kroger Co. are located at 1014 Vine Street, Cincinnati, Ohio 45202-1100. Its telephone number is 513-762-4000. This Proxy Statement and Annual Report, and the accompanying proxy, were first sent or given to shareholders on April 5, 1993.

As of the close of business on March 23, 1993, the Company's outstanding voting securities consisted of 104,716,822 shares of Common Stock, the holders of which will be entitled to one vote per share at the annual meeting. The shares represented by each proxy will be voted unless the proxy is revoked before it is exercised. Revocation may be in writing to the Secretary of the Company or in person at the meeting or by appointment of a subsequent proxy. The laws of Ohio, under which the Company is organized, provide for cumulative voting. If notice in writing is given by any shareholder to the President, a Vice President, or the Secretary of the Company not less than 48 hours before the time fixed for holding the meeting that the shareholder intends to cumulate votes for the election of directors and if an announcement of the giving of such notice is made by or on behalf of any such shareholder or by the Chairman or Secretary upon the convening of the meeting, each shareholder shall have the right to cumulate votes at such election. If cumulative voting is in effect, a shareholder voting for the election of directors may cast a number of votes equal to five times the number of shares held on the record date for a single nominee or divide them among the nominees in full votes in any manner. Any vote "FOR" the election of directors will constitute discretionary authority to the Proxy Committee to cumulate votes to which such proxies relate as it, in its discretion, shall determine, if cumulative voting is requested.

Proposals To Shareholders

Election Of Directors
(Item No. 1)

The Board of Directors, as now authorized, consists of fifteen members divided into three classes. Five directors are to be elected at the annual meeting to serve until the annual meeting in 1996 or until their successors have been elected by the shareholders, or by the Board of Directors pursuant to the Company's Regulations, and qualified. Candidates for director receiving the greatest number of votes cast by holders of shares entitled to vote at a meeting at which a quorum is present are elected, up to the maximum number of directors to be chosen at the meeting. The committee memberships stated below are for the year 1993. It is intended that, except to the extent that authority is withheld, the accompanying proxy will be voted for the election of the following five persons:

Name	Professional Occupation (1)	Age	Director Since
	Directors Whose Terms of Office Continue Until 1996		
Richard W. Dillon	Mr. Dillon is Chairman Emeritus of the Board of Dillon Companies, Inc., a wholly-owned subsidiary of Kroger. Mr. Dillon is chair of the Corporate Responsibility Committee. (2)	65	1983
Lyle Everingham	Mr. Everingham is the retired Chairman of the Board and Chief Executive Officer of Kroger. He is a director of Federated Stores, Inc.; Cincinnati Milacron Inc.; and Capital Holding Corporation. Mr. Everingham is a member of the Financial Policy and Nominating Committees.	66	1970
John T. LaMacchia	Mr. LaMacchia is President, Chief Operating Officer, and a director of Cincinnati Bell Inc., a telecommunications holding company. He is a director of Multimedia, Inc. Mr. LaMacchia is vice chair of the Audit Committee and a member of the Compensation, Executive, and Financial Policy Committees.	51	1990
T. Ballard Morton, Jr.	Mr. Morton is Executive in Residence of the College of Business & Public Administration of the University of Louisville. He is a director of PNC Bank Corp., Kentucky; PNC Bank, Kentucky, Inc.; Louisville Gas & Electric Co.; and PNC Bank Corp. Mr. Morton is vice chair of the Financial Policy Committee and a member of the Executive and Nominating Committees.	60	1968
Katherine D. Ortega	Ms. Ortega served as an Alternate Representative of the United States to the 45th General Assembly of the United Nations in 1990-1991. Prior to that, she served as Treasurer of the United States from September 1983 through June 1989. Ms. Ortega is a director of Diamond Shamrock, Inc. and Ralston Purina Co. She is a member of the Audit and Corporate Responsibility Committees.	58	1992

Name	Professional Occupation (1)	Age	Director Since
	DIRECTORS WHOSE TERMS OF OFFICE CONTINUE UNTIL 1995		
John L. Clendenin	Mr. Clendenin is Chairman of the Board and Chief Executive Officer of BellSouth Corporation, a holding company with subsidiaries in the telecommunications business. He is a director of Wachovia Corp.; Equifax Incorporated; National Service Industries, Inc.; Capital Holding Corporation; Springs Industries, Inc.; Coca Cola Enterprises, Inc.; and New York Stock Exchange, Inc. Mr. Clendenin is chair of the Audit Committee and vice chair of the Corporate Responsibility Committee.	58	1986
Ray E. Dillon, Jr.	Mr. Dillon is Chairman Emeritus of the Board of Dillon Companies, Inc., a wholly-owned subsidiary of Kroger. He is a director of Emprise Bank. Mr. Dillon is chair of the Financial Policy Committee and a member of the Audit Committee. (2)	68	1983
Patricia Shontz Longe	Dr. Longe is an Economist and a Senior Partner of The Longe Company, an economic consulting and investment firm. She is a director of The Detroit Edison Company; Jacobson Stores, Inc.; Comerica, Inc.; Comerica Bank & Trust, FSB; and Warner-Lambert Company. Dr. Longe is chair of the Compensation Committee and a member of the Audit Committee.	59	1977
Thomas H. O'Leary	Mr. O'Leary is Chairman and Chief Executive Officer of Burlington Resources, Inc., a natural resources business. He is a director of The BFGoodrich Company. Mr. O'Leary is vice chair of the Nominating Committee and a member of the Compensation Committee.	59	1977

Name	Professional Occupation (1)	Age	Director Since
	DIRECTORS WHOSE TERMS OF OFFICE CONTINUE UNTIL 1994		
Reuben V. Anderson	Mr. Anderson is a member, in the Jackson, Mississippi office, of Phelps Dunbar, a New Orleans law firm. Prior to joining this law firm, he was a justice of the Supreme Court of Mississippi beginning in 1985. Mr. Anderson is a director of Trustmark National Bank. He is a member of the Audit and Corporate Responsibility Committees.	50	1991
Richard L. Bere	Mr. Bere is President and Chief Operating Officer of Kroger. He is vice chair of the Executive Committee and a member of the Corporate Responsibility Committee.	61	1990
Raymond B. Carey, Jr.	Mr. Carey is a retired Chairman of the Board and Chief Executive Officer of ADT, Inc., an electronic protection company. He is a director of Thomas & Betts Corporation and C.R. Bard. Mr. Carey is vice chair of the Compensation Committee and a member of the Executive and Corporate Responsibility Committees.	66	1977
John D. Ong	Mr. Ong is Chairman and Chief Executive Officer of The BFGoodrich Company, a chemical and aerospace company. He is a director of Cooper Industries, Inc.; Ameritech Corporation; and ASARCO Inc. Mr. Ong is chair of the Nominating Committee and a member of the Financial Policy Committee.	59	1975
Joseph A. Pichler	Mr. Pichler is Chairman of the Board and Chief Executive Officer of Kroger. He is a director of The BFGoodrich Company. Mr. Pichler is chair of the Executive Committee and a member of the Financial Policy and Nominating Committees.	53	1983
Martha Romayne Seger	Dr. Seger joined the faculty of the University of Arizona in 1991. She had been a member of the Board of Governors of the Federal Reserve System since 1984. She is a director of Amerisure Companies; Amoco Corporation; Capital Holding Corporation; Fluor Corporation; Johnson Controls, Inc.; and Xerox Corporation. Dr. Seger is a member of the Financial Policy and Nominating Committees.(3)	61	1991

(1) Except as noted, each of the directors has been employed by his or her present employer (or a subsidiary) in an executive capacity for at least five years.

(2) Ray E. Dillon, Jr. and Richard W. Dillon are brothers.

(3) Dr. Seger currently is on unpaid leave of absence from Board meeting attendance.

Information Concerning The Board Of Directors

Directors' Compensation

Each non-employee director is currently paid an annual retainer of $23,000 plus fees of $1,500 for each board meeting and $1,000 for each committee meeting attended. Committee chairs receive an additional annual retainer of $3,500. Directors who are employees of the Company do not receive any compensation for service as directors. The Company provides accidental death and disability insurance for directors at a cost to the Company in 1992 of $175 per director. The Company also provides a major medical plan for directors.

The Company has an unfunded retirement program for outside directors. The retirement benefit is the average compensation for the five calendar years preceding retirement. Directors who retire from the Board prior to age 70 will be credited with 50% vesting after five years of service and an additional 10% for each year served thereafter. Benefits for directors who retire prior to age 70 will commence at the time of retirement from the Board or age 65, whichever comes later.

Committees Of The Board

The Board of Directors has a number of standing committees including Audit, Nominating and Compensation Committees. During 1992, the Audit Committee met five times, the Nominating Committee met two times, and the Compensation Committee met four times. Committee memberships are shown on pages 4 through 6 of this Proxy Statement. The Audit Committee reviews external and internal auditing matters and is responsible for the selection of the Company's independent auditors subject to the approval of the Board and ratification by shareholders. The Compensation Committee determines the compensation of the Company's senior management and administers its stock option and benefit programs. The Nominating Committee is responsible for developing criteria for selecting and retaining members of the Board and seeks out qualified candidates. The Board of Directors met nine times in 1992.

The Nominating Committee will consider shareholder recommendations for nominees for membership on the Board of Directors. Recommendations intended for inclusion in the Company's proxy material relating to the Company's annual meeting in May 1994, together with a description of the proposed nominee's qualifications and other relevant information, must be submitted in writing to Paul W. Heldman, Secretary of the Company, and received at the Company's executive offices not later than December 7, 1993.

Certain Transactions

The Company purchased certain seafood and private label products to be sold in Company stores from suppliers represented by two firms in which Mr. Everingham's son, Mark Everingham, owned a 41% and 50% interest, respectively. The two firms earned gross revenues of approximately $6,028,257 in fees paid by the suppliers for services performed by the firms on behalf of the suppliers. The management of the Company views these transactions, and the amounts paid for the goods supplied, as fair and competitive.

In 1989, Ray E. Dillon, Jr. and Richard W. Dillon purchased and leased back to the Company eight convenience stores for approximately $3 million. These convenience stores were part of a group of convenience stores offered for sale and leaseback to the public on identical terms, and the stores purchased by the Dillons first were offered publicly on those terms. During 1992, Ray E. Dillon, Jr. received $217,779 from the Company as rent for five of these stores and Richard W. Dillon received $84,646 from the Company as rent for the other three stores. The management of the Company has determined that the terms of the transaction were developed at arm's length and are fair and competitive, and that the sale and leaseback of those convenience stores is in the best interests of the Company.

The law firm of Gilliland & Hayes, of which Bradley D. Dillon, son of Richard W. Dillon, is a partner, rendered legal services to the Company which resulted in fees paid to the law firm by the Company in 1992 of $118,300. The management of the Company has determined that these amounts paid by the Company for the services supplied are fair and competitive.

In addition, the law firm of Phelps Dunbar, of which Reuben V. Anderson is a partner, rendered legal services to the Company which resulted in fees paid to the law firm by the Company in 1992 of $14,385. The management of the Company has determined that amounts paid by the Company for the services are fair and competitive.

Compensation of Executive Officers

Summary Compensation

The following table shows the compensation for the past three years of each of the Company's five most highly compensated executive officers, including the Chief Executive Officer (the "named executive officers"):

SUMMARY COMPENSATION TABLE

		Annual Compensation			Long Term Compensation(5) Awards		
Name and Principal Position	Year	Salary ($)	Bonus ($)	Other Annual Compensation ($)	Restricted Stock Awards ($)	Options/SARs (#)	All Other Compensation ($)
		(6)			(2)(3)	(4)	(7)
Joseph A. Pichler	1992	$417,885	$149,484			20,000	$17,526
Chairman and Chief	1991	$410,000	$190,537			20,000	
Executive Officer	1990	$410,000	$353,068		$750,000	70,000	
Richard L. Bere	1992	$305,769	$108,382			16,000	$19,434
President and Chief	1991	$300,000	$133,781			16,000	
Operating Officer	1990	$213,603	$216,191		$431,250	40,000	
David B. Dillon	1992	$280,000	$129,228			15,000	$ 873
Executive Vice President,	1991	$280,000	$ 74,484			13,000	
and President, Dillon Companies, Inc.	1990	$280,000	$128,248		$287,500	30,000	
William J. Sinkula	1992	$265,000	$ 85,896			13,500	$17,763
Executive Vice President	1991	$260,000	$101,350			13,500	
and Chief Financial Officer	1990	$260,000	$190,484		$287,500	30,000	
Michael S. Heschel	1992	$208,827	$ 75,000	$41,860(1)		12,500	$ 7,336
Group Vice President and	1991	$190,385	$ 56,250		$412,500	20,000	
Chief Information Officer	1990	N/A	N/A		N/A	N/A	

(1) $32,620 of this amount relates to reimbursement of certain expenses associated with Mr. Heschel's move from Phoenix to Cincinnati.

(2) Restricted stock awards vest in installments over a 5 year period. The Company is currently prohibited by contract from paying dividends on its Common Stock but, should this prohibition be lifted, dividends, as and when declared, would be payable on these shares.

(3) Messrs. Pichler, Bere, Dillon, Sinkula and Heschel had 38,000, 18,000, 12,800, 12,800, and 16,000 shares outstanding, respectively at January 2, 1993 with an aggregate value of $513,000, $258,750, $197,700, $197,700, and $330,000, respectively. The aggregate value is based on the market price of the Company's Common Stock on the date the awards were granted.

(4) Represents options granted during the respective fiscal year. The options vest 6 months from grant date and terminate in 10 years if not earlier exercised or terminated. No stock appreciation rights ("SARs") were issued in any of the three years presented.

(5) The Company has no long-term incentive plans other than those related to restricted stock and stock options.

(6) Messrs. Pichler, Bere, Sinkula and Heschel received no salary increase in 1992. The increase shown is the result of Kroger's 53 week fiscal year 1992. Mr. Dillon's salary is reflective of Dillon Companies' annual compensation based on a 365 day year.

(7) These amounts represent the Company's matching contribution under The Kroger Co. Savings Plan and, excluding Mr. Dillon, reimbursement of certain premiums for policies of life insurance.

Stock Option/Stock Appreciation Right Grants

The Company has in effect employee stock option plans pursuant to which options to purchase Common Stock of the Company are granted to officers and other employees of the Company and its subsidiaries. The following table shows option grants in fiscal year 1992 to the named executive officers:

OPTION/SAR GRANTS IN LAST FISCAL YEAR

	Individual Grants				Potential Realizable Value at Assumed Rates of Stock Price Appreciation for Option Term		
Name	Options/SARs Granted(1) (#)	% of Total Options/SARs Granted to Employees in Fiscal Year(1)	Exercise or Base Price ($/Share)	Expiration Date	0%	5%	10%
Joseph A. Pichler	20,000	0.39%	$18.69	4/15/2002	$0	$235,494	$594,342
Richard L. Bere	16,000	0.31%	$18.69	4/15/2002	$0	$188,395	$475,474
David B. Dillon	15,000	0.29%	$18.69	4/15/2002	$0	$176,621	$445,757
William J. Sinkula	13,500	0.26%	$18.69	4/15/2002	$0	$158,958	$401,181
Michael S. Heschel	12,500	0.24%	$18.69	4/15/2002	$0	$147,184	$371,464

(1) No SARs were granted or outstanding during the fiscal year. These options vest 6 months from grant date and terminate in 10 years if not earlier exercised or terminated.

The assumptions set forth in the chart above are merely examples and do not represent predictions of future stock prices or a forecast by the Company with regard to stock prices.

Aggregated Option/SAR Exercises in Fiscal Year and Option/SAR Values

The following table shows information concerning the exercise of stock options during fiscal year 1992 by each of the named executive officers and the fiscal year-end value of unexercised options:

AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR AND FY-END OPTION/SAR VALUES TABLE

Name	Shares Acquired on Exercise (#)	Value Realized ($)	Number of Unexercised Options/SARs at F/Y End (1) (#) Exercisable/ Unexercisable (2)	Value of Unexercised In-the-Money Options/SARs at F/Y End (1) ($) Exercisable/ Unexercisable (2)
Joseph A. Pichler	3,000	$ 25,726	189,080	$630,166
Richard L. Bere	0	$ 0	100,777	$322,931
David B. Dillon	11,970	$124,931	161,505	$870,593
William J. Sinkula	30,000	$247,890	72,000	$121,725
Michael S. Heschel	0	$ 0	32,500	$ 0

(1) No SARs were issued or outstanding during the fiscal year.
(2) All options are exercisable.

Long-Term Incentive Plan Awards

The Company provided no Long-Term Incentive Plan awards to any named executive officer during fiscal year 1992.

Compensation Committee Report

Since 1987, the Company's compensation policies applicable to executive officers, and to virtually all other levels of its work force, have been:

- be competitive in total compensation
- include, as part of total compensation, opportunities for equity ownership
- utilize incentives that offer more than competitive compensation when the Company achieves superior results
- base incentive payments on earnings before interest, taxes, depreciation and LIFO charges ("EBITD") and on sales results.

Pursuant to these policies, Kroger and the Compensation Committee have granted stock options to and established compensation plans for executives, management, and hourly employees. The number of options granted to an executive, including the Chief Executive Officer, is determined by reference to his or her salary and industry data for comparable positions. The number of options granted to Kroger executive officers is substantially below that for comparable positions in the retail food industry because the Company grants options to several thousand management and hourly employees instead of, as is common in the industry, a small group of executives. A fixed portion of compensation, or salary, is established by considering internal equity and competitor salary data as described below. Additionally, a large percentage of employees at all levels of the organization are eligible to receive a bonus incentive based upon financial performance. In the case of the executive officers, approximately 50% of total potential compensation is based on Company or unit performance. Salary and bonus levels are compared to those of a peer group, The Wholesale/Retail Compensation Survey, consisting of top supermarket and food wholesaling companies, to ensure that executive and management compensation is competitive.

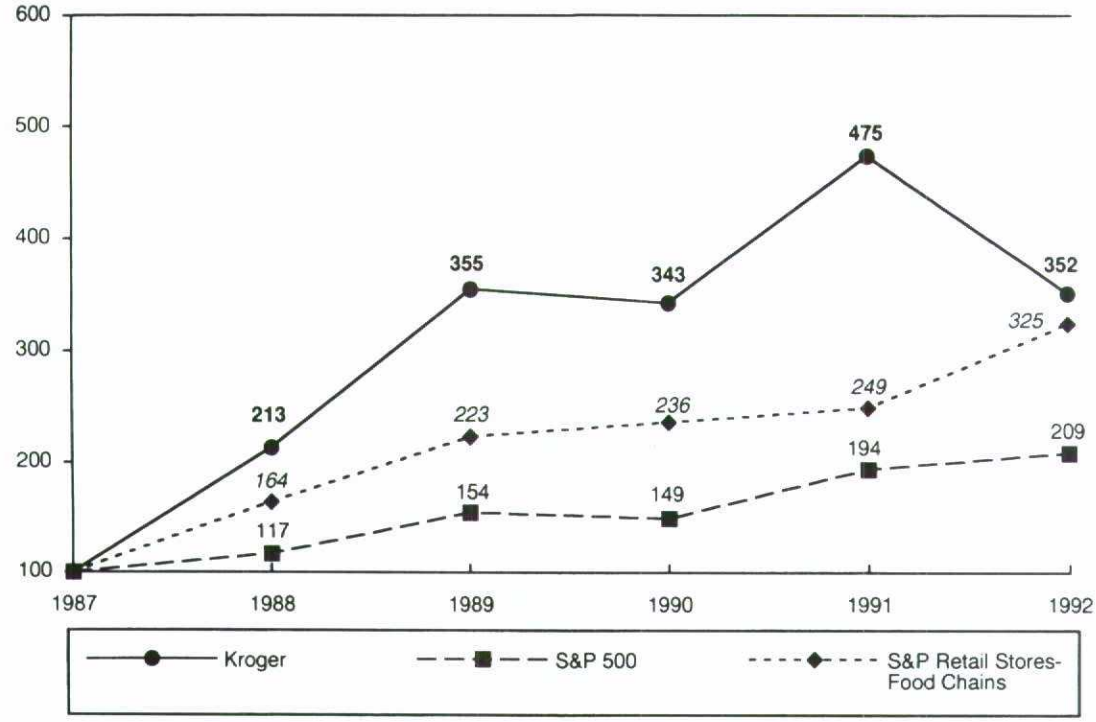
The compensation of Kroger's Chief Executive Officer is determined annually pursuant to the same policies. Mr. Pichler's variable compensation or bonus for the last fiscal year, which represented 31.8% of his bonus potential, reflects the extent to which the Company achieved the EBITD and sales targets that were established at the beginning of the year. The stock options granted to Mr. Pichler in the last fiscal year represent a form of compensation that varies directly with the Company's performance in the stock market, and their value reflects a disappointing year.

Compensation Committee:
Patricia Shontz Longe, Chair
Raymond B. Carey, Jr., Vice-Chair
John T. LaMacchia
Thomas H. O'Leary

Performance Graph

Set forth below is a line graph comparing the cumulative total shareholder return on the Company's Common Stock, based on the market price of the Common Stock and assuming reinvestment of dividends, with the cumulative total return of companies on the Standard & Poor's 500 Stock Index and the S&P Retail Stores-Food Chains Index:

COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN*
OF THE KROGER CO., S&P 500 AND PEER GROUP**



The Company's fiscal year ends on the Saturday closest to December 31.

*Total assumes $100 invested on December 31, 1987 in The Kroger Co., S&P 500 Index and S&P Retail Stores-Food Chains Index, with reinvestment of dividends.

**S&P Retail Stores-Food Chains Index currently consists of Albertson's, American Stores, Bruno's, Giant Food, Great Atlantic & Pacific, The Kroger Co. and Winn-Dixie Stores.

Neither the foregoing Compensation Committee Report nor the foregoing Performance Graph shall be deemed incorporated by reference into any other filing, absent an express reference thereto.

Compensation Pursuant To Plans

The Company maintains various benefit plans which are available to management and certain other employees. The Company derives the benefit of certain tax deductions as a result of its contributions to some of the plans. Each of the executive officers of the Company was eligible to participate in one or more of the following plans.

The Kroger Co. Employee Protection Plan

The Company adopted The Kroger Co. Employee Protection Plan ("KEPP") during fiscal 1988. All management employees, including the executive officers, and administrative support personnel of the Company with at least one year of service are covered. KEPP provides for severance benefits and the extension of Company paid health care in the event an eligible employee actually or constructively is terminated from employment without cause within two years following a change of control of the Company (as defined in the plan). For persons over 40 years of age with more than six years of service, severance pay ranges from approximately 9 to 18 months' salary and bonus, depending upon Company pay level and other benefits. KEPP may be amended or terminated by the Board of Directors at any time prior to a change of control.

Pension Plans

The Company maintains the Kroger Retirement Benefit Plan, a defined benefit plan, to provide pension benefits to retired or disabled management employees and administrative support personnel. The Plan generally provides for benefits at age 62 or later equal to 1½% times the years of service, after attaining age 21, times the highest average earnings for any period of five consecutive years during the ten calendar years preceding retirement, less an offset tied to Social Security benefits. The Company also maintains an Excess Benefits Plan under which the Company pays benefits under this formula which exceed the maximum benefit payable under ERISA by defined benefit plans. The following table gives examples of annual retirement benefits payable on a straight-life basis under the Company's retirement program.

Five Year Average Remuneration	Years of Service After Age 21				
	20	25	30	35	40
$150,000	$ 45,000	$ 56,250	$ 67,500	$ 78,750	$ 90,000
250,000	75,000	93,750	112,500	131,250	150,000
450,000	135,000	168,750	202,500	236,250	270,000
650,000	195,000	243,750	292,500	341,250	390,000
850,000	255,000	318,750	382,500	446,250	510,000
900,000	270,000	337,500	405,000	472,500	540,000

No deductions have been made in the above table for offsets tied to Social Security benefits.

Remuneration earned by Messrs. Pichler, Bere, Sinkula and Heschel in 1992, which was covered by the Plan was $608,422, $439,551, $366,350 and $272,981, respectively. As of January 2, 1993, they had 5, 35, 13, and 1 years of credited service, respectively.

Dillon Plans

Dillon Companies, Inc. and its subsidiaries maintain pension, profit sharing, stock ownership, and savings plans that provide benefits at levels comparable to the plans described above. David B. Dillon participates in these plans. In addition, Mr. Pichler has six years of credited service under certain of the pension and profit sharing plans, but no further credited service will be accrued for him under such plans.

Under the Dillon Profit Sharing and Savings Plans, Dillon and each of its subsidiaries contributes a certain percentage of its net income, determined annually, to its plans to be allocated among its participating employees based on the percent each such participating employee's total compensation bears to the total compensation of all participating employees employed by such entity. On a participating employee's

termination after the age of 60 (or prior thereto after 7 years of service), death or disability, he is entitled to his full account balance. To update and supplement these plans, Dillon and several of its subsidiaries have adopted Minimum Benefit Pension Plans for their eligible employees. Under these plans, the normal retirement benefit for eligible employees is a certain percentage of average compensation during a certain period of employment multiplied by the years of credited service (in some of these plans there is a maximum period of credited service), minus the benefit provided by the Profit Sharing and Savings Plans.

The following table shows the estimated annual pension payable upon retirement to persons covered by Dillon's Profit Sharing and Savings Plans and Dillon's Minimum Benefit Pension Plans.

Average Compensation	Years of Service				
	20	25	30	35	40
$150,000	$ 30,000	$ 37,500	$ 45,000	$ 52,500	$ 60,000
250,000	50,000	62,500	75,000	87,500	100,000
300,000	60,000	75,000	90,000	105,000	120,000
400,000	80,000	100,000	120,000	140,000	160,000
500,000	100,000	125,000	150,000	175,000	200,000

The amounts contributed by Dillon and its subsidiaries pursuant to these Minimum Benefit Pension Plans is not readily ascertainable for any individual, and thus is not set forth with respect to Mr. Dillon. Mr. Dillon has 17 years of credited service.

Stock Options

The Company has granted stock options and restricted stock to the executive officers under several employee stock option plans which were approved previously by shareholders. In the event that a change of control of the Company occurs, all options become immediately exercisable, and all restrictions on restricted stock lapse. In 1988, the Board of Directors amended the plans to permit the Compensation Committee to grant limited stock appreciation rights to executive officers of the Company in tandem with outstanding or newly granted stock options. Limited stock appreciation rights permit the holder to receive the spread between the market price and exercise price upon the exercise of the options following a change of control of the Company. Limited stock appreciation rights operate in tandem with the related stock options and the exercise of one extinguishes any rights with respect to the other. In 1988 the Compensation Committee granted limited stock appreciation rights with respect to all then outstanding stock options granted to executive officers.

Employment Contracts

The Company entered into an employment agreement with Mr. Pichler dated June 17, 1990, as modified and amended. During his employment, the Company agrees to pay Mr. Pichler at least $400,000 a year, unless the amount is reduced due to adverse business conditions. Mr. Pichler's employment may be terminated at the discretion of the Board of Directors. The contract also provides that the Company will continue to pay Mr. Pichler's salary to his beneficiary for a period of five years after a termination of employment resulting from his death, or will pay to Mr. Pichler his salary for a term equal to the lesser of five years or until October 4, 2005, if Mr. Pichler's termination of employment results from his involuntary separation. The Company also has agreed to reimburse Mr. Pichler for premiums on a policy of life insurance plus the tax effects of that reimbursement. After his termination of employment for any reason after age 62 if he is not entitled to receive the salary continuation described above, Mr. Pichler will, in exchange for his availability to provide certain consulting services, then receive each year until his death an amount equal to 25% of the highest salary paid him during the term of this agreement.

Beneficial Ownership Of Common Stock

As of February 8, 1993, the directors of the Company, the named executive officers and the directors and executive officers as a group, beneficially owned shares of the Company's Common Stock as follows:

Name	Amount and Nature of Beneficial Ownership
Reuben V. Anderson	700
Richard L. Bere	92,248.656 (9)(10)
Raymond B. Carey, Jr.	2,700
John L. Clendenin	400
David B. Dillon	139,752.1318(1)(9)(10)
Ray E. Dillon, Jr.	121,800 (2)
Richard W. Dillon	232,050 (3)
Lyle Everingham	251,002.341 (4)(9)(10)
Michael S. Heschel	16,105.79 (5)(9)(10)
John T. LaMacchia	1,000
Patricia Shontz Longe	4,000
T. Ballard Morton, Jr.	10,000
Thomas H. O'Leary	800
John D. Ong	400
Katherine D. Ortega	460
Joseph A. Pichler	223,116.9024(6)(9)(10)
Martha Romayne Seger	0
William J. Sinkula	161,270.7326(9)(10)
Directors and Executive Officers as a group (including those named above)	1,469,026.6500(7)(8)(9)(10)

(1) This amount does not include 20,730 shares owned by Mr. Dillon's wife, 13,506 shares in his children's trust or 10,584 shares owned by his children. Mr. Dillon disclaims beneficial ownership of these shares.

(2) This amount does not include 138,200 shares owned by Mr. Ray E. Dillon, Jr.'s wife or 489,800 in his father's trust of which he and Richard W. Dillon are co-trustees. Mr. Dillon disclaims beneficial ownership of these shares.

(3) This amount does not include 93,116 shares owned by Mr. Richard Dillon's wife or 489,800 in his father's trust of which he and Ray E. Dillon, Jr. are co-trustees. Mr. Dillon disclaims beneficial ownership of these shares.

(4) This amount does not include 56,453 shares owned by Mr. Everingham's wife. Mr. Everingham disclaims beneficial ownership of these shares.

(5) This amount does not include 4,000 shares owned by Mr. Heschel's wife. Mr. Heschel disclaims beneficial ownership of these shares.

(6) This amount does not include 705 shares owned by Mr. Pichler's wife or 3,064 shares owned by his children. Mr. Pichler disclaims beneficial ownership of these shares.

(7) The figure shown does not include an aggregate of 52,726 additional shares held by, or for the benefit of, the immediate families or other relatives of all directors and executive officers as a group not previously listed above. In each case the director or executive officer disclaims beneficial ownership of such shares.

(8) No director or executive officer owned as much as 1% of Common Stock of the Company. The directors and executive officers as a group beneficially owned 3.0% of Common Stock of the Company.

(9) This amount does not include shares which represent options exercisable on or before April 9, 1993, in the following amounts: Mr. Bere, 100,777; Mr. Dillon, 161,505; Mr. Everingham, 110,000; Mr. Heschel, 32,500; Mr. Pichler, 189,080; Mr. Sinkula, 72,000; and all directors and executive officers as a group, 1,305,549.

(10) The fractional interest results from allocations under Kroger's 401(k) plan and Dillon's ESOP and 401(k) plan.

As of February 8, 1993, the following persons reported beneficial ownership of the Company's Common Stock based on reports on Schedule 13G filed with the Securities and Exchange Commission or other reliable information as follows:

Name	Address of Beneficial Owner	Amount and Nature of Ownership	Percentage of Class
The Kroger Co. Savings Plan	1014 Vine Street Cincinnati, OH 45202	14,518,537(1)	15.8%
The Dillon Cos. Employee Master Trust	700 East 30th Street Hutchinson, KS 67052	8,613,195(1)	9.4
FMR Corp.	82 Devonshire Street Boston, MA 02109	5,758,006(2)	5.3

(1) Shares beneficially owned by plan trustees for the benefit of participants in employee benefit plans.

(2) FMR Corp. reported as of December 31, 1992, sole voting power with respect to 290,308 shares and sole dispositive power with respect to 5,758,006 shares. The report includes shares beneficially owned by Fidelity Management and Research Company and by Fidelity Management Trust Company, wholly-owned subsidiaries of FMR Corp., which shares include 531,873 shares of Common Stock resulting from the assumed conversion of convertible securities.

Compliance With Section 16(a) of The Securities Exchange Act

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers and directors, and persons who own more than ten percent of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission and the New York Stock Exchange. Such officers, directors and shareholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on its review of the copies of such forms received by the Company, or written representations from certain reporting persons that no Forms 5 were required for those persons, the Company believes that during fiscal year 1992 all filing requirements applicable to its officers, directors and ten percent beneficial owners were satisfied except that Mr. Cleve Gorman failed to file one report disclosing the acquisition of 100 shares of stock. Upon discovery of the error, Mr. Gorman disclosed the omission on a Form 5 which was timely filed.

Selection Of Auditors
(Item No. 2)

The Board of Directors, on February 11, 1993, appointed the firm of Coopers & Lybrand as Company auditors for 1993, subject to ratification by shareholders. This appointment was recommended by the Company's Audit Committee, comprised of directors who are not employees of the Company. If the firm is unable for any reason to perform these services, or if selection of the auditors is not ratified, other independent auditors will be selected to serve. Ratification of this appointment requires the adoption of the following resolution by the affirmative vote of the holders of a majority of the shares represented at the meeting:

"RESOLVED, That the appointment by the Board of Directors of Coopers & Lybrand as Company auditors for 1993 be and it hereby is ratified."

Fees for all audit services provided by Coopers & Lybrand in 1992 totaled $786,545. In addition, fees totaling $47,789 were charged for non-audit services.

A representative of Coopers & Lybrand is expected to be present at the meeting to respond to appropriate questions and to make a statement if he desires to do so.

THE BOARD OF DIRECTORS AND MANAGEMENT RECOMMEND A VOTE FOR THIS PROPOSAL.

SHAREHOLDER PROPOSALS—1994 ANNUAL MEETING. Shareholder proposals intended for inclusion in the Company's proxy material relating to the Company's annual meeting in May 1994 should be addressed to the Secretary of the Company and must be received at the Company's executive offices not later than December 7, 1993.

Attached to this Proxy Statement is the Company's 1992 Annual Report which includes a brief description of the Company's business indicating the general scope and nature of such business during 1992, together with the audited financial information contained in the Company's 1992 report to the Securities and Exchange Commission on Form 10-K. **A copy of that report is available to shareholders on request by writing: Lawrence M. Turner, Treasurer, The Kroger Co., 1014 Vine Street, Cincinnati, Ohio 45202-1100 or by calling 1-513-762-1220.**

The management knows of no other matters that are to be presented at the meeting but, if any should be presented, the Proxy Committee expects to vote thereon according to its best judgment.

By order of the Board of Directors,

Paul W. Heldman, Secretary

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The management of The Kroger Co. has the responsibility for preparing the accompanying financial statements and for their integrity and objectivity. The statements were prepared in accordance with generally accepted accounting principles applied on a consistent basis and are not misstated due to material error or fraud. The financial statements include amounts that are based on management's best estimates and judgments. Management also prepared the other information in the report and is responsible for its accuracy and consistency with the financial statements.

The Company's financial statements have been audited by Coopers & Lybrand, independent certified public accountants, approved by the shareholders. Management has made available to Coopers & Lybrand all of the Company's financial records and related data, as well as the minutes of stockholders' and directors' meetings. Furthermore, management believes that all representations made to Coopers & Lybrand during its audit were valid and appropriate.

Management of the Company has established and maintains a system of internal control that provides reasonable assurance as to the integrity of the financial statements, the protection of assets from unauthorized use or disposition, and the prevention and detection of fraudulent financial reporting. The system of internal control provides for appropriate division of responsibility and is documented by written policies and procedures that are communicated to employees with significant roles in the financial reporting process and updated as necessary. Management continually monitors the system of internal control for compliance. The Company maintains a strong internal auditing program that independently assesses the effectiveness of the internal controls and recommends possible improvements thereto. In addition, as part of its audit of the Company's financial statements, Coopers & Lybrand completed a review of selected internal accounting controls to establish a basis for reliance thereon in determining the nature, timing and extent of audit tests to be applied. Management has considered the internal auditor's and Coopers & Lybrand's recommendations concerning the Company's system of internal control and has taken actions that we believe are cost-effective in the circumstances to respond appropriately to these recommendations. Management believes that, as of January 2, 1993, the Company's system of internal control is adequate to accomplish the objectives discussed herein.

Management also recognizes its responsibility for fostering a strong ethical climate so that the Company's affairs are conducted according to the highest standards of personal and corporate conduct. This responsibility is characterized and reflected in the Company's code of corporate conduct, which is publicized throughout the Company. The code of conduct addresses, among other things, the necessity of ensuring open communication within the Company; potential conflicts of interests; compliance with all domestic and foreign laws, including those relating to financial disclosure; and the confidentiality of proprietary information. The Company maintains a systematic program to assess compliance with these policies.

Joseph A. Pichler
Chairman of the Board and
Chief Executive Officer

William J. Sinkula
Executive Vice President and
Chief Financial Officer

AUDIT COMMITTEE CHAIRMAN'S LETTER

The Audit Committee of the Board of Directors is composed of six independent directors. The committee held five meetings during fiscal year 1992. In addition, members of the committee received and reviewed various reports from the Company's internal auditor and from Coopers & Lybrand throughout the year.

The Audit Committee oversees the Company's financial reporting process on behalf of the Board of Directors. In fulfilling its responsibility, the Committee recommended to the Board of Directors, subject to shareowner approval, the selection of the Company's independent public accountant, Coopers & Lybrand. The Audit Committee discussed with the Company's internal auditor and Coopers & Lybrand the overall scope and specific plans for their respective audits. The committee also discussed the Company's consolidated financial statements and the adequacy of the Company's internal controls. At four of the meetings, the committee met with the Company's internal auditor and Coopers & Lybrand, in each case without management present, to discuss the results of their audits, their evaluations of the Company's internal controls, and the overall quality of the Company's financial reporting. Those meetings also were designed to facilitate any private communications with the committee desired by the Company's internal auditor or Coopers & Lybrand.

John L. Clendenin
Chairman—Audit Committee

THE COMPANY

The Kroger Co. (the "Company") was founded in 1883 and incorporated in 1902. As of January 2, 1993 the Company was the largest grocery retailer in the United States based on annual sales. The Company also manufactures and processes food for sale by its supermarkets. The Company's principal executive offices are located at 1014 Vine Street, Cincinnati, Ohio 45202 and its telephone number is (513) 762-4000.

As of January 2, 1993, the Company operated 1,274 supermarkets, most of which are leased. Of this number, 1,040 supermarkets were operated principally under the Kroger name in the Midwest and South. Dillon Companies, Inc. ("Dillon"), a wholly-owned subsidiary of the Company, operated 234 supermarkets directly or through wholly-owned subsidiaries (the "Dillon Supermarkets"). The Dillon Supermarkets, principally located in Colorado, Kansas, Arizona and Missouri, operate under the names "King Soopers", "Dillon Food Stores", "Fry's Food Stores", "City Market", "Gerbes Supermarkets" and "Sav-Mor".

As of January 2, 1993, the Company, through its Dillon subsidiary, operated 940 convenience stores under the trade names of "Kwik Shop", "Quik Stop Markets", "Time Saver Stores", "Tom Thumb Food Stores", "Turkey Hill Minit Markets", "Loaf 'N Jug", and "Mini-Mart". The convenience stores offer a limited assortment of staple food items and general merchandise and, in most cases, sell gasoline.

The Company intends to develop new food and convenience store locations and will continue to assess existing stores as to possible replacement, remodeling, enlarging or closing.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Sales

Sales in the fourth quarter 1992, which included 13 weeks, increased 11.2% over 1991, which included 12 weeks. Excluding the extra week, fourth quarter 1992 sales increased 2.4% over the prior year. Sales for the full year, including the extra week, increased 3.7%, exceeding $22 billion for the first time in the Company's history. Excluding the extra week, full year 1992 sales increased 1.6% over 1991. A review of sales by lines of business for the three years ended January 2, 1993, is as follows:

	% of 1992 Sales	1992 Amount	1992 Change	1991 Amount	1991 Change	1990 Amount	1990 Change
		(millions of dollars)					
Food Stores	91.2%	$20,199	+3.4%	$19,533	+5.7%	$18,485	+ 7.7%
Convenience Stores	4.1%	916	+6.0%	864	+0.2%	863	+10.2%
Other Sales	4.7%	1,030	+8.0%	954	+4.4%	913	+ 2.9%
Total Sales	100.0%	$22,145	+3.7%	$21,351	+5.4%	$20,261	+ 6.1%

Sales in identical food stores for the full year 1992 (those operating a full year and not expanded) decreased 0.3% from the prior year. Excluding Michigan, which had a sixty-seven day strike during the second and third quarters, identical food stores sales increased 0.5% for all of 1992 and 1.4% in the fourth quarter 1992 versus the same periods in 1991. These increases were achieved despite low overall food inflation and deflation in some commodities and intense new competition in markets like Dallas and Houston, Texas, and Dayton, Ohio.

Convenience stores sales increased 6.0% for the year and 11.9% during the fourth quarter including the extra week. Both figures were enhanced by an increase in gasoline retail prices and an increase in gallons sold. Grocery sales in identical convenience stores increased 1.4% in the fourth quarter 1992 and 1.8% for all of 1992. Gasoline dollar sales at identical convenience stores increased 10.0% in the fourth quarter 1992 on an 8.5% increase in gallons sold and 6.4% for the year on a 7.3% increase in gallons sold.

Other sales include outside sales by the Company's manufacturing divisions and sales of general merchandise to a drug store company in which the Company maintains an equity interest. The drug store company expects to complete an expansion of its warehouse in 1993 and to discontinue its purchases from the Company. The Company expects that this will result in a decline of approximately 45% to 50% in other sales.

Total food store square footage increased 2.5%, 2.2%, and 2.7% in 1992, 1991, and 1990, respectively. 1990 includes the acquisition of the former Great Scott! stores in Michigan. Convenience store square footage increased .24% and .53% in 1992 and 1990, respectively and declined 2.1% in 1991. Sales per average square foot for the last three years were:

	Total Sales Per Average Square Foot 1992	1991	1990
Food Stores	$402	$398	$386
Convenience Stores	$389	$364	$360

EBITD

During 1992 earnings before interest, taxes, depreciation, LIFO charge and unusual items (EBITD) decreased 6.2% to $908.2 million compared to $968.0 million in 1991 and $959.0 million in 1990. The decrease in 1992 is attributable to the Michigan strike, which reduced EBITD by approximately $69 million, and intense competition. The Company's strategy in areas of intense new competition is to maintain its customer base and identical store sales. This is generally accomplished through various merchandising efforts, most of which, in the short run, have a negative effect on EBITD. The Company's goal for 1993 is to reach the $968 million of EBITD attained in 1991.

The Company's restated Credit Agreement, dated January 21, 1992 (the terms of which were retroactive to December 28, 1991) and the indentures underlying approximately $1.4 billion of publicly issued debt contain various restrictive covenants, many of which are based on EBITD. The ability to generate EBITD at levels sufficient to satisfy the requirements of these agreements is a key measure of the Company's financial strength. At January 2, 1993 the Company was in compliance with all covenants of its restated Credit Agreement and publicly issued debt. The Company believes it has adequate coverage of its debt covenants to continue to respond effectively to competitive conditions.

Merchandise Costs

Merchandise costs include warehousing and transportation expenses and LIFO charges. The following table shows the relative effect that LIFO charges have had on merchandising costs as a percent of sales:

	1992	1991	1990
Merchandise costs as reported	77.12%	77.19%	77.34%
LIFO charge	.03%	.12%	.20%
Merchandise costs as adjusted	77.09%	77.07%	77.14%

The increase in gross profit during 1992 and 1991 compared to 1990 was caused, in part, by an increase in the sale of private label products. Many consumers have switched from national brand products to private label products. The Company produces many of its own private label products and therefore has lower product costs for such items than could be obtained through procurement. Gross profit in 1992 was negatively affected by the Michigan strike. Without Michigan the gross profit rate for 1992 was 23.07% versus 22.96% in 1991. This increase came despite the intense new competition experienced in several markets and is attributable primarily to improved sales in higher margin specialty departments.

Operating, General and Administrative Expenses

Operating, general and administrative expenses as a percent of sales in 1992, 1991 and 1990 were 17.51%, 17.15% and 16.88%, respectively. Without Michigan, operating, general and administrative expenses, as a percent of sales, in 1992 and 1991 were 17.35% and 17.13%, respectively. The combination of higher wage and fringe benefits in some collective bargaining agreements and slowed sales growth has contributed to the upward trend in these expenses. The Company's capital program, including investments in technology, is expected to mitigate this upward trend.

Income Taxes

The effective income tax rates were 41.7%, 40.3% and 41.4% for 1992, 1991 and 1990, respectively. The 1990 effective rate includes the effect of additional tax expense of $6.0 million resulting from the Company's settlement of all issues with the Internal Revenue Service for fiscal years through 1983.

Net Earnings (Loss)

Net earnings (loss) totaled $(5.9) million in 1992 compared to $79.9 million in 1991 and $82.4 million in 1990. The decrease in 1992 versus 1991 and 1990 was affected by: (i) a sixty-seven day strike in Michigan during 1992, (ii) an extraordinary loss from the early retirement of debt in 1992 of $107.1 million compared to $20.8 million in 1991 and $.9 million in 1990, (iii) a one time after-tax gain in 1990 of $16.6 million from the sale of an equity investment in an unaffiliated company, (iv) the settlement during 1990 of all issues with the Internal Revenue Service through fiscal year 1983 for $6.0 million, (v) a LIFO charge in 1992 of $8.1 million versus $26.2 million in 1991 and $40.8 million in 1990 and (vi) net interest expense in 1992 of $474.8 million versus $531.1 million in 1991 and $558.1 million in 1990.

Liquidity and Capital Resources

Debt Management and Interest Expense

The Company continued to reduce interest expense during 1992. The Company was successful in placing $1.1 billion of senior subordinated debt during 1992 with an average rate of 9.62% and $200 million of convertible junior subordinated notes with a rate of 6.375%. The proceeds from these offerings are being used to repurchase, on the open market, other high yield subordinated debt with an average rate of 14.3% (see "Repurchase and Redemption of Subordinated Debt"). As a result of these and other transactions the Company has reduced the weighted average cost of its long-term debt, including capital leases, to 9.4% at year-end 1992 versus 11.6% at the beginning of 1990. Long-term debt, including capital leases and current portion thereof, increased $66 million to $4.554 billion at year end 1992 from $4.488 billion at year end 1991, including accretion on the Junior Subordinated Discount Debentures during 1992 of $112.3 million.

Required principal repayments over the next five years declined to $534.5 million at year end 1992 versus $541.3 million and $721.1 million at year-end 1991 and 1990, respectively. Scheduled debt maturities for the five years subsequent to 1992, 1991 and 1990 were:

	1992	1991	1990
		(in thousands)	
Year 1	$ 73,248	$ 73,580	$ 90,459
Year 2	115,017	123,368	153,783
Year 3	111,549	114,927	165,849
Year 4	118,032	111,451	157,313
Year 5	116,669	117,926	153,657

Maturities shown for 1991 reflect the restated Credit Agreement dated January 21, 1992.

The average interest rate, including the effect of interest rate swaps, on the Company's bank debt, which totaled $851.0 million at year-end 1992 versus $935.5 million at year-end 1991, was 5.42% compared to 6.13% at the end of 1991 and 9.18% at the end of 1990. The decline is due to generally lower market interest rates and achieving .25% interest rate step downs in June and December of 1990. The Company's rate on the bank debt is variable. On January 14, 1993, the Company notified the administrative agent for its Credit Agreement that it had qualified for an additional .25% interest rate step down.

The Company currently has in place various interest rate hedging agreements aggregating $800 million. The effect of these agreements is to: (i) fix the rate on $100 million of floating rate debt for a period of one year (expires July 1993) and to fix the rate on an additional $100 million floating rate debt for a period of two years (expires July 1994), (ii) swap the contractual interest rate on $350 million of seven and ten year debt instruments to the rates available on three to five year fixed-rate instruments (upon expiration of the three to five year swap agreements, the fixed contractual rate will become floating for the remainder of the seven and ten year terms of the debt) and (iii) swap the contractual interest rate on $250 million of seven year fixed-rate instruments into floating-rate instruments.

The Company currently expects 1993 net interest expense to total $420–$430 million compared to $474.8 million, $531.1 million and $558.1 million in 1992, 1991 and 1990, respectively.

To meet any short-term liquidity needs, the Company has available an $850 million Working Capital Facility. A portion of the Company's short-term borrowings are permitted to be in the form of commercial paper. At January 2, 1993, the Company had $311.8 million of commercial paper outstanding and $361.8 million in total short-term borrowings. At year-end 1992, after deducting amounts set aside as backup for the Company's unrated commercial paper program, $321.3 million was available under the Working Capital Facility. There are no annual principal payments required under the Working Capital Facility, which expires on January 3, 1998.

Repurchase and Redemption of Subordinated Debt

During 1992, 1991 and 1990 the Company had achieved sufficient EBITD and reductions in interest costs to effect a Consolidated Debt Service Coverage Ratio (the "Ratio"), as defined in the Senior Unsecured,

Senior Subordinated and Subordinated Debentures Indentures, of greater than 1.75. These indentures permit the Company, *inter alia,* to repurchase Senior Subordinated, Subordinated and Junior Subordinated Discount Debentures so long as such repurchase results in a Ratio of 1.75 or more on a proforma basis adjusting for (i) the current transaction, (ii) all previous repurchases and (iii) current interest rates for variable rate debt.

During 1992 the Company repurchased $269.9 million face amount of Junior Subordinated Discount Debentures with an accreted value of $231.1 million, $343.9 million Senior Subordinated Debentures and $256.2 million Subordinated Debentures. Additionally, the Company redeemed $120.5 million Senior Subordinated Debentures and $304.6 million Subordinated Debentures. The redemptions were effected using funds from asset sales, the sale of treasury stock to employee benefit plans and excess cash from operations. The outstanding balances of these debt issues at January 2, 1993 were $800.4 million face amount (with an accreted balance of $719.5 million) for the Junior Subordinated Discount Debentures, $71.2 million for the Senior Subordinated Debentures and $0 for the Subordinated Debentures. The Company redeemed the remaining $71.2 million Senior Subordinated Debentures on January 29, 1993.

During 1991 the Company repurchased $303.8 million face amount of Junior Subordinated Discount Debentures with an accreted value of $217.9 million, $59.3 million Senior Subordinated Debentures and $64.2 million Subordinated Debentures. During 1990 the Company repurchased $30.1 million of Senior Subordinated Debentures.

The Company may, from time to time, continue to repurchase Junior Subordinated Discount Debentures as conditions permit. In addition, the Junior Subordinated Discount Debentures indenture permits the Company to redeem these Debentures at par.

Capital Expenditures

Capital expenditures totaled $241.2 million for 1992, $208.1 million for 1991 and $219.5 million in 1990, which included asset acquisitions from Great Scott! During 1992 the Company opened, acquired or expanded 42 food stores and 19 convenience stores compared to 42 food stores and 4 convenience stores in 1991 and 60 food stores and 10 convenience stores in 1990. The Company expects capital expenditures to approximate $1 billion over the next three years. Storing expenditures will be concentrated in existing markets and are expected to be sufficient to fulfill the Company's objective to construct, replace or remodel approximately 10% of its store base each year and to expand square footage at an average annual rate, over such 3-year period, of 3.5%. Approximately $105 million of these amounts will be expended on cost-saving technology. These projects include a satellite-based system that will link many of the Company's facilities, enhanced front-end systems, labor scheduling, product receiving, electronic funds transfer and shelf management programs.

Consolidated Statement of Cash Flows

During 1992 the Company generated $532.8 million in cash from operating activities compared to $448.4 million in 1991 and $497.8 million in 1990. The increase from 1991 is due to an increase in cash of $45.1 million from changes in operating assets and liabilities and a $56.3 million reduction in interest expense. The increase from 1990 is due to reduced cash interest expense.

Investing activities used $264.3 million of cash in 1992 compared to $187.9 million of cash used in 1991 and $190.8 million of cash used in 1990. The increase in the use of cash is due to an increase in capital expenditures and additions to property held for sale.

Cash used by financing activities totaled $168.4 million in 1992 compared to $311.1 million and $367.9 million in 1991 and 1990, respectively. The decline is due to lower net debt reductions in 1992 versus 1991 and 1990.

Other Issues

The Company is party to more than 200 collective bargaining agreements with local unions representing approximately 110,000 of the Company's employees. Included in the contracts expiring in the remainder of 1993 are those covering store employees in Dayton, Toledo, Dallas and Denver. In Houston, the Company's meat department employees approved a new two-year contract in February 1993, and a tentative agreement, to be voted on the week of February 22, 1993, has been reached with the retail store employees. Typical agreements are 3 to 4 years in duration, and as such agreements expire, the Company expects to negotiate with the unions and to enter into new collective bargaining agreements. There can be no assurance, however, that such agreements will be reached without work stoppage. A prolonged work stoppage affecting a substantial number of stores could have a material adverse effect on the results of the Company's operations.

In December 1990 the Financial Accounting Standards Board issued Statement on Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The Company will implement the statement in the first quarter 1993 using the immediate recognition approach and, as a result, expects to incur a one time after-tax charge of $140 million to $160 million in the first quarter of 1993. The annual impact of the statement on the Company's future results of operations is expected to be a charge of approximately $10 million after-tax.

The expected increase in the annual postretirement benefit expense will not affect the Company's EBITD used for the Company's loan covenant calculations. All EBITD based covenants in the Company's Credit Agreement and the indentures underlying approximately $1.4 billion of publicly issued debt are based on generally accepted accounting principles as applied at the date of the agreements. Therefore, the additional expense will be excluded from such calculations.

On January 25, 1993, the Company issued $200 million of 9¼% Senior Secured Debentures (the "Senior Secureds"). The Senior Secureds become due on January 1, 2005. The Senior Secureds are redeemable at any time on or after January 1, 1998 in whole or in part at the option of the Company. The redemption prices commence at 104.625% and are reduced by 1.156% annually until January 1, 2002 when the redemption price is 100%.

Report of Independent Accountants

To the Shareowners and Board of Directors
The Kroger Co.

We have audited the accompanying consolidated balance sheet of The Kroger Co. as of January 2, 1993 and December 28, 1991, and the related consolidated statements of operations and accumulated deficit, and cash flows for the years ended January 2, 1993, December 28, 1991 and December 29, 1990. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Kroger Co. as of January 2, 1993 and December 28, 1991, and the consolidated results of its operations and its cash flows for the years ended January 2, 1993, December 28, 1991 and December 29, 1990, in conformity with generally accepted accounting principles.

Coopers & Lybrand

Coopers & Lybrand
Cincinnati, Ohio
February 8, 1993

CONSOLIDATED BALANCE SHEET

(In thousands of dollars)	January 2, 1993	December 28, 1991
ASSETS		
Current assets		
Cash and temporary cash investments	**$ 103,995**	$ 3,973
Receivables	**275,173**	261,081
Inventories:		
FIFO cost	**1,989,137**	1,967,809
Less LIFO reserve	**(433,694)**	(425,551)
	1,555,443	1,542,258
Property held for sale	**37,080**	43,439
Prepaid and other current assets	**196,808**	141,211
Total current assets	**2,168,499**	1,991,962
Property, plant and equipment, net	**1,877,172**	1,856,748
Investments and other assets	**257,413**	265,641
Total Assets	**$4,303,084**	$4,114,351
LIABILITIES		
Current liabilities		
Current portion of long-term debt	**$ 73,248**	$ 73,580
Current portion of obligations under capital leases	**7,309**	6,704
Accounts payable	**1,297,630**	1,267,694
Other current liabilities	**795,845**	738,976
Total current liabilities	**2,174,032**	2,086,954
Long-term debt	**4,323,950**	4,250,066
Obligations under capital leases	**149,028**	157,698
Deferred income taxes	**278,097**	269,553
Other long-term liabilities	**78,021**	99,263
Total Liabilities	**7,003,128**	6,863,534
SHAREOWNERS' DEFICIT		
Common capital stock, par $1		
Authorized: 350,000,000 shares		
Issued: 1992—104,378,000 shares		
1991—103,757,096 shares	**104,378**	121,970
Accumulated deficit	**(2,475,561)**	(2,460,725)
Common stock in treasury, at cost		
1992—12,925,729 shares		
1991—16,090,120 shares	**(328,861)**	(410,428)
Total Shareowners' Deficit	**(2,700,044)**	(2,749,183)
Total Liabilities and Shareowners' Deficit	**$4,303,084**	$4,114,351

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Operations and Accumulated Deficit

Years Ended January 2, 1993, December 28, 1991 and December 29, 1990

(In thousands, except per share amounts)	1992 (53 Weeks)	1991 (52 Weeks)	1990 (52 Weeks)
Sales	**$22,144,588**	$21,350,530	$20,260,974
Costs and expenses			
Merchandise costs, including warehousing and transportation	**17,078,839**	16,480,580	15,669,671
Operating, general and administrative	**3,877,550**	3,661,887	3,420,620
Rent	**288,113**	266,328	252,500
Depreciation and amortization	**251,822**	242,022	244,663
Net interest expense	**474,849**	531,118	558,071
Restructuring and other credits			(26,754)
Total	**21,971,173**	21,181,935	20,118,771
Earnings before tax expense and extraordinary loss	**173,415**	168,595	142,203
Tax expense	**72,255**	67,901	58,913
Earnings before extraordinary loss	**101,160**	100,694	83,290
Extraordinary loss, net of income tax credit	**(107,103)**	(20,839)	(910)
Net Earnings (Loss)	**$ (5,943)**	$ 79,855	$ 82,380
Accumulated Deficit			
Beginning of year	**$(2,460,725)**	$(2,540,580)	$(2,609,090)
Net earnings (loss)	**(5,943)**	79,855	82,380
Sales of treasury stock below average cost	**(8,893)**		(13,870)
End of year	**$(2,475,561)**	$(2,460,725)	$(2,540,580)
Earnings (Loss) per Common Share			
Earnings before extraordinary loss	**$1.11**	$1.12	$.96
Extraordinary loss	**(1.17)**	(.23)	(.01)
Net earnings (loss)	**$(.06)**	$.89	$.95
Shares Used For Per Share Calculations	**91,364**	90,218	86,565

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Years Ended January 2, 1993, December 28, 1991 and December 29, 1990

(In thousands of dollars)	1992 (53 Weeks)	1991 (52 Weeks)	1990 (52 Weeks)
Cash Flows From Operating Activities:			
Net earnings (loss)	**$ (5,943)**	$ 79,855	$ 82,380
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Extraordinary loss	**107,103**	20,839	910
Depreciation and amortization	**251,822**	242,022	244,663
Gain on sale of equity investment			(26,754)
Amortization of discount on Junior Subordinated Debentures	**112,321**	115,760	118,239
Amortization of deferred financing costs	**10,660**	13,326	15,158
Loss on sale of property, plant and equipment	**3,541**	6,485	5,926
LIFO charge	**8,143**	26,244	40,845
Net increase (decrease) in cash from changes in operating assets and liabilities, detailed hereafter	**45,127**	(56,113)	16,439
Net cash provided by operating activities	**532,774**	448,418	497,806
Cash Flows From Investing Activities:			
Capital expenditures	**(241,234)**	(208,076)	(219,459)
Proceeds from sale of property, plant and equipment	**6,562**	8,938	25,421
Additions to property held for sale	**(26,291)**	(3,925)	(14,717)
Decrease in assets held for sale—restructuring			3,124
Decrease (increase) in other investments	**(3,375)**	19,138	(13,753)
Proceeds from sale of equity investment			30,052
Other changes, net		(3,926)	(1,495)
Net cash used by investing activities	**(264,338)**	(187,851)	(190,827)
Cash Flows From Financing Activities:			
Debt prepayment costs	**(136,613)**	(28,854)	
Financing charges incurred	**(39,695)**	(10,793)	(8,780)
Principal payments under capital lease obligations	**(6,561)**	(6,915)	(5,790)
Proceeds from issuance of long-term debt	**1,354,666**	229,514	305,967
Reductions in long-term debt	**(1,393,435)**	(521,537)	(682,010)
Proceeds from issuance of capital stock	**3,167**	13,036	4,505
Proceeds from sale of treasury stock	**48,843**	10,303	17,535
Capital stock reacquired	**(44)**	(819)	(326)
Tax benefit of non-qualified stock options	**1,258**	4,928	988
Net cash used by financing activities	**(168,414)**	(311,137)	(367,911)
Net increase (decrease) in cash and temporary cash investments	**100,022**	(50,570)	(60,932)
Cash and Temporary Cash Investments:			
Beginning of year	**3,973**	54,543	115,475
End of year	**$ 103,995**	$ 3,973	$ 54,543

Consolidated Statement of Cash Flows, Continued

Years Ended January 2, 1993, December 28, 1991 and December 29, 1990

(In thousands of dollars)	1992 (53 Weeks)	1991 (52 Weeks)	1990 (52 Weeks)
Increase (Decrease) In Cash From Changes In Operating Assets And Liabilities:			
Inventories (FIFO)	**$(21,328)**	$(120,872)	$(93,374)
Receivables	**(14,092)**	15,877	3,533
Prepaid and other current assets	**(18,186)**	356	74,801
Accounts payable	**29,935**	70,159	65,725
Accrued expenses	**53,078**	(25,594)	27,811
Deferred income taxes	**(34,331)**	(21,616)	(14,630)
Other liabilities	**50,051**	25,577	(47,427)
	$ 45,127	$ (56,113)	$ 16,439

The accompanying notes are an integral part of the consolidated financial statements.

Notes To Consolidated Financial Statements

All dollar amounts are in thousands except per share amounts.

Accounting Policies

The following is a summary of the significant accounting policies followed in preparing these financial statements.

Principles of Consolidation

The consolidated financial statements include the Company and all of its subsidiaries.

Inventories

Inventories are stated at the lower of cost (principally LIFO) or market. Approximately 89% of inventories for 1992 and 1991 were valued using the LIFO method. Cost for the balance of the inventories is determined using the FIFO method.

Property Held for Sale

Property held for sale includes the net book value of property, plant and equipment that are in the process of being sold.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation and amortization, which includes the amortization of assets recorded under capital leases, are computed principally using the straight-line method over the estimated useful lives of individual assets, composite group lives or the initial or remaining terms of leases. Buildings and land improvements are depreciated based on lives varying from 10 to 40 years and equipment depreciation is based on lives varying from three to 15 years. Leasehold improvements are amortized over their useful lives which vary from four to 25 years.

Interest Rate Hedging Agreements

The Company uses interest rate swaps to hedge a portion of its variable rate borrowings against increases in interest rates. The interest differential to be paid or received is accrued as interest rates change and is recognized over the life of the agreements currently as a component of interest expense. Gains and losses from the disposition of hedge agreements are deferred and amortized over the term of the related agreements.

Deferred Income Taxes

Deferred income taxes are recorded to reflect the tax consequences on future years of differences between the tax bases of assets and liabilities and their financial reporting bases. The types of differences that give rise to significant portions of deferred income tax liabilities or assets relate to: property, plant and equipment, inventories, accruals for restructuring and other charges and accruals for compensation-related costs. Deferred income taxes are classified as a net current and noncurrent asset or liability based on the classification of the related asset or liability for financial reporting. A deferred tax asset or liability that is not related to an asset or liability for financial reporting is classified according to the expected reversal date. See Taxes Based on Income footnote.

Consolidated Statement of Cash Flows

For purposes of the Consolidated Statement of Cash Flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be temporary cash investments.

Cash paid during the year for interest and income taxes was as follows:

	1992	1991	1990
Interest	$367,126	$414,288	$426,790
Income taxes	48,195	56,445	19,397

PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net consists of:

	1992	1991
Land	$ 188,382	$ 182,471
Buildings and land improvements	630,437	586,374
Equipment	2,214,378	2,107,869
Leaseholds and leasehold improvements	675,615	650,244
Leased property under capital leases	217,244	226,070
	3,926,056	3,753,028
Accumulated depreciation and amortization	(2,048,884)	(1,896,280)
	$1,877,172	$1,856,748

Substantially all property, plant and equipment collateralizes debt of the Company. (See Debt Obligations footnote.)

INVESTMENTS AND OTHER ASSETS

Investments and other assets consists of:

	1992	1991
Deferred financing costs	$112,278	$119,550
Goodwill	55,287	59,618
Other	89,848	86,473
	$257,413	$265,641

The Company is amortizing deferred financing costs using the interest method and the straight-line basis over the life of the related borrowings.

Substantially all goodwill is amortized on the straight-line method over forty years.

RESTRUCTURING AND OTHER CREDITS

On December 14, 1990, the Company disposed of an equity investment in an unaffiliated company. The Company recognized a pre-tax gain of $26,754.

OTHER CURRENT LIABILITIES

Other current liabilities consists of:

	1992	1991
Salaries and wages	$233,060	$207,104
Taxes, other than income taxes	138,357	114,700
Interest	75,407	86,253
Other	349,021	330,919
	$795,845	$738,976

TAXES BASED ON INCOME

Effective December 29, 1991 the Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes." No cumulative effect adjustment was required for the adoption of SFAS No. 109 due to the Company's previous use of the liability method under SFAS No. 96. Adoption of SFAS No. 109 did not have a material impact on income tax expense in 1992.

The adoption of SFAS No. 109 is expected to have a material impact on the Company's financial statements in the first quarter of 1993 due to the adoption of SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The Company expects to recognize a tax benefit in the range of $78,000 to $90,000 in connection with the adoption of SFAS No. 106. A certain portion of this benefit would not have been recognized under SFAS No. 96.

During 1990, the Company settled all issues with the Internal Revenue Service for fiscal years through 1983. Tax expense was increased $6,000 as a result of this settlement.

The provision for taxes based on income consists of:

	1992	1991	1990
Federal			
Current	$ 80,934	$ 71,101	$ 61,516
Deferred	(34,331)	(21,616)	(14,630)
	46,603	49,485	46,886
State and local	25,652	18,416	12,027
	72,255	67,901	58,913
Tax credit from extraordinary loss	(65,644)	(12,772)	(469)
	$ 6,611	$ 55,129	$ 58,444

Targeted job tax credits reduced the tax provision by $3,378 in 1992, $4,116 in 1991 and $3,577 in 1990.

A reconciliation of the statutory federal rate and the effective rate is as follows:

	1992	1991	1990
Statutory rate	34.0%	34.0%	34.0%
State income taxes, net of federal tax benefit	9.8	7.2	5.6
Tax credits	(2.1)	(2.6)	(2.7)
Tax settlement			4.2
Tax rate difference in carryback years			.2
Other, net		1.7	.1
	41.7%	40.3%	41.4%

The approximate effects of temporary differences and tax carryforwards that comprise deferred tax balances at January 2, 1993, were as follows:

	Temporary Differences		Tax Carry-Forwards	Total
	Charges	Credits		
Compensation related costs	$ 24,016	$(27,485)		$ (3,469)
Insurance related costs	33,185			33,185
Lease accounting		(5,271)		(5,271)
Inventory related costs	16,829	(725)		16,104
Tax credit carryforwards			$ 11,653	11,653
Alternative minimum tax credit carryforward			5,857	5,857
Other	15,367	(13,427)		1,940
Net deferred tax assets (in prepaid & other current assets)	$ 89,397	$(46,908)	$ 17,510	$ 59,999
Depreciation		$293,179		$293,179
Compensation related costs	$ (3,222)	4,559		1,337
Insurance related costs	(9,224)	12,726		3,502
Lease accounting	(21,150)	370		(20,780)
Deferred charges		10,517		10,517
Alternative minimum tax credit carryforward			$(13,974)	(13,974)
Other	(9,326)	13,642		4,316
Net deferred tax liabilities	$(42,922)	$334,993	$(13,974)	$278,097

The components of deductible and (taxable) temporary differences at December 28, 1991 were: Depreciation, $(280,763); Compensation related costs, $21,616; Insurance related costs, $27,607; Restructuring and other credits, $(5,550); and Other, $15,339.

As of January 2, 1993, the Company has alternative minimum tax credit carryforwards of $19,831 which have been used to reduce net deferred income tax credits. This amount will be allowed as a credit against regular tax in the future to the extent that regular tax expense exceeds the alternative minimum tax expense. These credits do not have an expiration date. The Company also has $11,653 of Targeted Jobs Credit carryforwards, $6,535 of which expire in 2006 and $5,118 in 2007.

DEBT OBLIGATIONS

Long-term debt consists of:

	1992	1991
Variable rate Senior Term Facility, due in varying amounts through 1998	$ 489,197	$ 605,817
Variable rate Working Capital Facility, due 1998	361,789	329,671
11⅛% Senior Notes, due 1998	250,000	250,000
8¾% Senior Subordinated Reset Notes, due 1999	100,000	
9% Senior Subordinated Notes, due 1999	125,000	
9¾% Senior Subordinated Debentures, due 2004	175,000	
9¾% Senior Subordinated Debentures, due 2004, Series B	100,000	
9⅞% Senior Subordinated Debentures, due 2002	250,000	
8⅛% to 9⅝% Senior Subordinated Notes, due 1999 to 2002	68,470	
10% Senior Subordinated Notes, due 1999	250,000	
12⅞% Senior Subordinated Debentures, due 1999	71,157	535,614
13⅛% Subordinated Debentures, due 2001		560,796
6⅜% Convertible Junior Subordinated Notes, due 1999	200,000	
8¼% Convertible Junior Subordinated Debentures, due 2011	170,000	170,000
15½% Junior Subordinated Discount Debentures, net of $80,932 and $232,051 unamortized discount in 1992 and 1991, respectively, due 2008 with an approximate effective rate of 13.88%	719,485	838,216
10% Mortgage loans, with semi-annual payments due through 2004	610,173	611,025
3⅗% to 14% industrial revenue bonds, due in varying amounts through 2022	229,145	236,875
6¾% to 12⅞% mortgages, due in varying amounts through 2012	204,640	155,791
5¼% to 12% notes, due in varying amounts through 2011	23,142	29,841
Total debt	4,397,198	4,323,646
Less current portion	73,248	73,580
Total long-term debt	$4,323,950	$4,250,066

The aggregate annual maturities and scheduled payments of long-term debt for the five years subsequent to 1992 are:

1993	$ 73,248
1994	$115,017
1995	$111,549
1996	$118,032
1997	$116,669

Credit Agreement

The Company entered into a restated Credit Agreement, dated January 21, 1992. This agreement replaced the credit agreement dated as of December 20, 1989. The following constitutes a summary of the principal terms and conditions of the restated Credit Agreement.

The Credit Agreement provides for: (i) a six-year senior term facility of $605,817 (the "Term Facility") and (ii) a working capital revolving credit facility of $850,000, with a $450,000 sublimit for the issuance of standby and documentary letters of credit (the "Working Capital Facility" and together with the Term Facility, the "Facilities").

The Term Facility expires in 1998, and is subject to quarterly amortization of $25,747 on the third day of each January, April, July and October. The January 3, 1993 and April 3, 1993 payments were made during 1992.

Interest Rates

Loans under the Facilities bear interest at the option of the Company at a rate equal to either (i) the rate of interest announced from time to time by Citibank, N.A., as its base rate (the "Base Rate") plus the Applicable Margin (as defined below) or (ii) an adjusted Eurodollar rate based upon the London interbank offered rate plus the Applicable Margin.

Applicable Margin means a percentage per annum determined by reference to the Cash Interest Coverage Ratio set forth below:

Cash Interest Coverage Ratio	Applicable Margin for Base Rate Advances	Applicable Margin for Eurodollar Rate Advances
less than 1.75 : 1	¾%	1¾%
1.75 : 1 or greater, but less than 2.10 : 1	½	1½
2.10 : 1 or greater, but less than 2.50 : 1	¼	1¼
2.50 : 1 or greater	¼	1

At January 2, 1993, the Applicable Margin is ¼% for Base Rate advances and 1¼% for Eurodollar Rate Advances. No more than one increase or decrease in the Applicable Margin shall occur in any six-month period. On January 14, 1993 the Company notified the Administrative Agent under the Credit Agreement that it had qualified for an additional ¼% reduction in the Applicable Margin for Eurodollar Rate Advances.

Collateral

The Company's obligations under the Facilities are collateralized by a pledge of the stock of subsidiaries of the Company and substantially all assets, both real and personal, of the Company and its subsidiaries.

Prepayment

The Company may prepay the Facilities, in whole or in part, at any time, without a prepayment penalty. Voluntary prepayments will be applied, at the option of the Company, either (i) to repay the Term Facility in the inverse order of maturity or (ii) to repay the next two quarterly scheduled Term Facility payments and then to repay the remaining Term Facility payments pro rata. The Facilities are subject to certain mandatory prepayments in connection with asset dispositions, certain stock issuances, certain incurrences of debt and sale and leaseback transactions and in respect of a percentage of the Company's excess annual cash as defined in the Credit Agreement.

Certain Covenants

The Credit Agreement contains covenants which, among other things, (i) restrict investments, capital expenditures, and other material outlays and commitments relating thereto, (ii) restrict the incurrence of debt, including the incurrence of debt by subsidiaries, (iii) restrict dividends and payment, prepayments, and repurchases of subordinated debt, capital stock or other securities, (iv) restrict mergers and acquisitions and changes of business or conduct of business, (v) restrict transactions with affiliates, (vi) restrict certain sales of assets, (vii) restrict changes in accounting treatment and reporting practices except as permitted under generally accepted accounting principles, (viii) require the maintenance of certain financial ratios and levels, including interest coverage ratios, fixed charge coverage ratios and total debt ratios, (ix) require the Company

to provide financial statements and an annual business plan of the Company and its subsidiaries and (x) require the Company to maintain interest rate protection providing that at least 70% of the Company's indebtedness for all borrowed money is maintained at a fixed rate of interest.

Interest Rate Protection Program

The Company currently has in place various interest rate hedging agreements aggregating $800,000. The effect of these agreements is to: (i) fix the rate on $100,000 of floating rate debt for a period of one year (expires July, 1993) and to fix the rate on an additional $100,000 floating rate debt for a period of two years (expires July, 1994), (ii) swap the contractual interest rate on $350,000 of seven and ten year debt instruments to the rates available on three to five year fixed rate instruments (upon expiration of the three to five year swap agreements the fixed contractual rate will become floating for the remainder of the seven and ten year term of the debt) and (iii) swap the contractual interest rate on $250,000 of seven year fixed-rate instruments into floating-rate instruments. The Company is exposed to credit loss in the event of non-performance by the other parties to the interest rate swap agreements. However, the Company does not anticipate non-performance by the counterparties.

Senior Subordinated Debentures

During 1992 the Company repurchased $343,951 Senior Subordinated Debentures and redeemed an additional $10,000. In addition, $110,506 of Senior Subordinated Debentures were called for redemption in December 1992, for which funds were deposited in a trust account in December 1992, and were redeemed in January 1993. Accordingly, the called debentures were treated as redeemed for financial reporting purposes in 1992. The remaining $71,157 Senior Subordinated Debentures were called for redemption on December 29, 1992 and redeemed on January 29, 1993.

Senior Subordinated Indebtedness

During 1992 the Company issued $1,068,470 of Senior Subordinated Indebtedness. These issues include the following: (i) $175,000 9¾% Senior Subordinated Debentures due February 15, 2004. This issue is redeemable at any time on or after February 15, 1997 in whole or in part at the option of the Company. The redemption prices commence at 104.875% in 1997 and are reduced by 1.625% annually until 2000 when the redemption price is 100%, (ii) $100,000 9¾% Senior Subordinated Debentures due February 15, 2004, Series B. This issue is redeemable at any time on or after February 15, 1997 in whole or in part at the option of the Company. The redemption prices commence at 104.875% in 1997 and are reduced by 1.625% annually until 2000 when the redemption price is 100%, (iii) $250,000 10% Senior Subordinated Notes due May 1, 1999. This issue is not subject to early redemption by the Company, (iv) $250,000 9⅞% Senior Subordinated Debentures due August 1, 2002. This issue is redeemable at any time on or after August 1, 1999 in whole or in part at the option of the Company at par, (v) $125,000 9% Senior Subordinated Notes due August 15, 1999. This issue is redeemable at any time on or after August 15, 1996 in whole or in part at the option of the Company at par, (vi) $68,470 8⅛% to 9⅝% Senior Subordinated Notes due August 15, 1999 to December 15, 2002. This issue is not subject to early redemption by the Company, and (vii) $100,000 8¾% Senior Subordinated Reset Notes (the "Reset Notes"), due June 15, 1999. On each of June 15, 1994 and June 15, 1996, unless previously redeemed, the interest rate on the Reset Notes will, if necessary, be adjusted from the rate then in effect to a rate to be determined on the basis of market rates then in effect so that the Reset Notes would have a market value of 101% of principal amount immediately after the resetting of the rate except that the rate cannot be reset below 8¾%. The Reset Notes are redeemable at the option of the Company, in whole but not in part, either on June 15, 1994 or on June 15, 1996, at a redemption price equal to 101% of principal amount.

Subordinated Debentures

During 1992 the Company repurchased $256,177 Subordinated Debentures and redeemed an additional $210,642. In addition, $93,977 of Subordinated Debentures were called for redemption in

December 1992, for which funds were deposited in a trust account in December 1992 and were redeemed in January 1993. Accordingly, the called debentures were treated as redeemed for financial reporting purposes in 1992.

6⅜% Convertible Junior Subordinated Notes

On December 17, 1992 the Company issued $200,000 of 6⅜% Convertible Junior Subordinated Notes (the "6⅜% Convertibles"). The 6⅜% Convertibles become due December 1, 1999. The 6⅜% Convertibles are convertible into shares of the Company's common stock at a conversion price of $18.68 at any time at the option of the holder. The 6⅜% Convertibles are redeemable, in whole or in part, at the option of the Company at any time after December 17, 1992 at the scheduled redemption prices. The redemption prices commence at 106.375% and are reduced by .9105% annually each December 1 thereafter until 1999, when the 6⅜% Convertibles mature, except that, until December 8, 1995, the 6⅜% Convertibles cannot be redeemed by the Company unless the closing price of the Company's common stock equals or exceeds 150% of the then effective conversion price per share at least 20 out of 30 consecutive trading days ending within 10 days prior to mailing of the redemption notice. At January 2, 1993, the Company has reserved 10,706,638 shares of common stock for future conversion of the 6⅜% Convertibles.

8¼% Convertible Junior Subordinated Debentures

On March 13, 1991 the Company issued $170,000 of 8¼% Convertible Junior Subordinated Debentures (the "8¼% Convertibles"). The 8¼% Convertibles become due on April 15, 2011. The 8¼% Convertibles are convertible into shares of the Company's common stock at a conversion price of $26.70 at any time at the option of the holder. The 8¼% Convertibles are redeemable at any time on or after April 15, 1994 in whole or in part at the option of the Company at the scheduled redemption prices plus accrued interest. The redemption prices commence at 105.775% in 1994 and are reduced by .825% annually thereafter until 2001 when the redemption price is 100%. At January 2, 1993, the Company had reserved 6,367,041 shares of common stock for future conversions of the 8¼% Convertibles.

Junior Subordinated Discount Debentures

The Junior Subordinated Discount Debentures (the "Debentures") were issued on December 2, 1988 under an indenture (the "Indenture"), dated as of October 15, 1988, between the Company and Bankers Trust Company of California, National Association, as trustee.

The Debentures will become due on October 15, 2008. The principal of the Debentures will not bear interest until October 15, 1993; interest will be payable on the Debentures at an annual rate of 15½%, payable semi-annually on April 15 and October 15 in each year, commencing April 15, 1994, until the principal is paid or made available for payment.

The Debentures may be redeemed, at the option of the Company, in whole or in part, at any time at a redemption price of 100% of principal amount, plus accrued interest from the last interest payment date on which interest has been paid or provided for, from October 15, 1993 to the date of redemption.

On October 15 in each of the years 2004 through 2007 inclusive, the Company will be required to redeem an aggregate principal amount of Debentures equal to 20% of the greatest principal amount of Debentures issued and outstanding prior to October 15, 2004 at a redemption price of 100% of principal amount plus accrued interest to the date of redemption.

A settlement agreement between the Company and certain plaintiffs in *In Re: The Kroger Co. Shareholders Litigation,* Consolidated Case No. A-8807634, Court of Common Pleas, Hamilton County, Ohio, under which the Company had agreed to change the terms of the Debentures was effectively set aside by an appellate court and no longer is of any effect.

Senior Secured Debentures

On January 25, 1993, the Company issued $200,000 of 9¼% Senior Secured Debentures (the "Senior Secureds"). The Senior Secureds become due on January 1, 2005. The Senior Secureds are redeemable at any

time on or after January 1, 1998 in whole or in part at the option of the Company. The redemption prices commence at 104.625% and are reduced by 1.156% annually until January 1, 2002 when the redemption price is 100%.

Redemption Event

Subject to certain conditions (including repayment in full of all obligations under the Credit Agreement or obtaining the requisite consents under the Credit Agreement), the Company's publicly issued debt will be subject to redemption, in whole or in part, at the option of the holder upon the occurrence of a redemption event, upon not less than five days' notice prior to the date of redemption, at a redemption price equal to the default amount, plus a specified premium. "Redemption Event" is defined in the indentures as the occurrence of (i) any person or group, together with any affiliate thereof, beneficially owning 50% or more of the voting power of the Company or (ii) any one person or group, or affiliate thereof, succeeding in having a majority of its nominees elected to the Company's Board of Directors, in each case, without the consent of a majority of the continuing directors of the Company.

Mortgage Financing

On December 20, 1989, the Company completed a $612,475, 10% mortgage financing of 127 of its retail properties, distribution warehouse facilities, food processing facilities and other properties (the "Properties"), with a net book value of $325,327 held by thirteen newly formed wholly-owned subsidiaries. The wholly-owned subsidiaries mortgaged the Properties, which are leased to the Company or affiliates of the Company, to a newly formed special purpose corporation, Secured Finance Inc.

The mortgage loans have a maturity of 15 years. The Properties are subject to the liens of Secured Finance Inc. The mortgage loans are subject to semi-annual payments of interest and principal on $150,000 of the borrowing based on a 30-year payment schedule and interest only on the remaining $462,475 principal amount. The unpaid principal amount will be due on December 15, 2004.

Commercial Paper

Under the restated Credit Agreement the Company is permitted to issue up to $500,000 of unrated commercial paper and borrow up to $500,000 from the lenders under the Credit Agreement on a competitive bid basis. The total of unrated commercial paper, $311,788 at January 2, 1993, and competitive bid borrowings, $30,000 at January 2, 1993, however, may not exceed $500,000. All commercial paper and competitive bid borrowings must be supported by availability under the Working Capital Facility portion of the Credit Agreement. These borrowings have been classified as long-term because the Company expects that during 1993 these borrowings will be refinanced using the same type of securities. Additionally, the Company has the ability to refinance the short-term borrowings under the Working Capital Facility which matures January 3, 1998.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash And Short-term Investments

The carrying amount approximates fair value because of the short maturity of those instruments.

Long-term Investments

The fair values of these investments are estimated based on quoted market prices for those or similar investments.

Long-term Debt

The fair value of the Company's long-term debt, including the current portion thereof, is estimated based on the quoted market price for the same or similar issues.

Interest Rate Protection Agreements

The fair value of these agreements is based on the net present value of the future cash flows using interest rates in effect at January 2, 1993.

The estimated fair values of the Company's financial instruments are as follows:

	1992	
	Carrying Value	Estimated Fair Value
Cash and short-term investments	$ 103,995	$ 103,995
Long-term investments for which it is		
• Practicable	$ 20,375	$ 65,344
• Not Practicable	$ 20,922	$ —
Long-term debt for which it is		
• Practicable	$2,479,112	$2,527,127
• Not Practicable	$1,918,086	$ —
Interest Rate Protection Agreements	$ —	$ (2,587)

The investments for which it was not practicable to estimate fair value relate to equity investments in unrelated entities for which there is no market and investments in real estate development partnerships for which there is no market.

It was not practicable to estimate the fair value of $850,986 of long-term debt outstanding under the Company's Credit Agreement. There is no market for this debt. It was not practicable to estimate the fair value of $610,173 of long-term debt related to a mortgage package completed in 1989. This financing was a credit enhanced 90% loan-to-value package for which there is no market or current similar transactions. The remaining amount relates to Industrial Revenue Bonds, various mortgages and other notes for which there is no market.

LEASES

The Company operates primarily in leased facilities. Lease terms generally range from 10 to 25 years with options to renew at varying terms. Certain of the leases provide for contingent payments based upon a percent of sales.

Rent expense (under operating leases) consists of:

	1992	1991	1990
Minimum rentals	$270,763	$253,345	$238,006
Contingent payments	17,350	12,983	14,494
	$288,113	$266,328	$252,500

Assets recorded under capital leases consists of:

	1992	1991
Distribution and manufacturing facilities	$ 38,742	$ 46,680
Store facilities	178,502	179,390
Less accumulated amortization	(98,684)	(96,827)
	$118,560	$129,243

Minimum annual rentals for the five years subsequent to 1992 and in the aggregate are:

	Capital Leases	Operating Leases
1993	$ 26,679	$ 261,965
1994	26,236	250,205
1995	25,678	237,134
1996	24,881	220,160
1997	24,075	202,487
Thereafter	220,046	1,727,409
	347,595	$2,899,360
Less estimated executory costs included in capital leases	(29,533)	
Net minimum lease payments under capital leases	318,062	
Less amount representing interest	(161,725)	
Present value of net minimum lease payments under capital leases	$156,337	

EXTRAORDINARY LOSS

The extraordinary loss in 1992, 1991 and 1990 relates to premiums paid to retire certain indebtedness early and the write-off of related deferred financing costs.

EARNINGS (LOSS) PER COMMON SHARE

Earnings (loss) per common share equals net earnings (loss) divided by the weighted average number of common shares outstanding, after giving effect to dilutive stock options. Fully diluted earnings (loss) per share is not presented since it approximates the reported earnings (loss) per share amount.

PREFERRED STOCK

The Company has authorized 5,000,000 shares of voting cumulative preferred stock; 2,000,000 were available for issuance at January 2, 1993. The stock has a par value of $100 and is issuable in series. Under the Credit Agreement, the Company is prohibited from issuing shares of preferred stock.

COMMON STOCK

The Company has authorized 350,000,000 shares of $1 par common stock. The main trading market for the Company's common stock is the New York Stock Exchange, where it is listed under the symbol KR. For the three years ended January 2, 1993, changes in common stock were:

	Issued		In Treasury	
	Shares	Amount	Shares	Amount
December 31, 1989	101,639,176	$101,639	17,918,827	$458,092
Exercise of stock options including restricted stock grants	531,761	4,505	30,121	326
Sale of treasury shares to the Company's employee benefit plans		(3,354)	(1,354,663)	(34,759)
Tax benefit from exercise of non-qualified stock options		988		
December 29, 1990	102,170,937	103,778	16,594,285	423,659
Exercise of stock options including restricted stock grants	1,586,159	17,543	66,984	1,351
Sale of treasury shares to the Company's employee benefit plans		(4,279)	(571,149)	(14,582)
Tax benefit from exercise of non-qualified stock options		4,928		
December 28, 1991	103,757,096	121,970	16,090,120	410,428
Exercise of stock options including restricted stock grants	620,904	6,233	82,299	1,252
Sale of treasury shares to the Company's employee benefit plans		(25,082)	(3,246,690)	(82,819)
Tax benefit from exercise of non-qualified stock options		1,257		
January 2, 1993	104,378,000	$104,378	12,925,729	$328,861

STOCK OPTION PLANS

The Company grants options for common stock under various plans at an option price equal to the fair market value of the stock at the date of grant. In addition to cash payments, the plans provide for the exercise of options by exchanging issued shares of stock of the Company. At January 2, 1993 and December 28, 1991, 925,804 and 6,073,574 shares of common stock, respectively, were available for future options. Options may be granted under the 1985, 1987, 1988 and 1990 plans until 1995, 1997, 1998 and 2000,

respectively, and will expire 10 years from the date of grant. Options become exercisable six months from the date of grant. At January 2, 1993, options for 9,503,682 shares were exercisable. All grants outstanding become immediately exercisable upon certain changes of control of the Company.

Changes in options outstanding under the stock option plans, excluding restricted stock grants, were:

	Shares Subject To Option	Option Price Range Per Share
Outstanding, December 30, 1989	4,959,369	\$ 2.79—\$18.57
Granted	2,619,715	\$11.63—\$16.19
Exercised	(480,549)	\$ 2.79—\$10.75
Cancelled or expired	(45,077)	\$ 9.13—\$14.19
Outstanding, December 29, 1990	7,053,458	\$ 2.88—\$18.57
Granted	2,186,200	\$15.69—\$23.44
Exercised	(1,503,603)	\$ 2.88—\$16.19
Cancelled or expired	(43,024)	\$ 9.13—\$23.44
Outstanding, December 28, 1991	7,693,031	\$ 3.24—\$23.44
Granted	5,172,145	\$11.75—\$19.69
Exercised	(561,629)	\$ 3.24—\$18.57
Cancelled or expired	(101,850)	\$ 9.13—\$23.44
Outstanding, January 2, 1993	12,201,697	\$ 4.69—\$23.44

In addition to stock options, the Company may grant stock appreciation rights (SAR's) to certain officers. In general, the eligible optionees are permitted to surrender the related option and receive shares of the Company's common stock and/or cash having a value equal to the appreciation on the shares subject to the options. The appreciation of SAR's is charged to earnings in the current period based upon the market value of common stock. As of January 2, 1993 and December 28, 1991 there were no SAR's outstanding.

The Company also may grant limited stock appreciation rights (LSAR's) to executive officers in tandem with the related options. LSAR's operate in the same manner as SAR's but are exercisable only following a change of control of the Company. As of January 2, 1993 and December 28, 1991, there were no LSAR's outstanding.

Also, the Company may grant restricted stock awards to eligible employee participants. In general, a restricted stock award entitles an employee to receive a stated number of shares of common stock of the Company subject to forfeiture if the employee fails to remain in the continuous employ of the Company for a stipulated period. The holder of an award shall be entitled to the rights of a shareowner except that the restricted shares and the related rights to vote or receive dividends may not be transferred. The award is charged to earnings over the period in which the employee performs services and is based upon the market value of common stock at the date of grant. As of January 2, 1993 and December 28, 1991, awards related to 184,800 and 165,618 shares, respectively, were outstanding.

CONTINGENCIES

The Company continuously evaluates contingencies based upon the best available evidence.

Management believes that allowances for loss have been provided to the extent necessary and that its assessment of contingencies is reasonable. To the extent that resolution of contingencies results in amounts that vary from management's estimates, future earnings will be charged or credited.

The principal contingencies are described below:

Income Taxes—The Company has settled all tax years through 1983 with the Internal Revenue Service. The Internal Revenue Service has completed its examination of the Company's tax returns for 1984 through 1986 and the Company has made payments based on its proposed settlement. The Company has provided for this and other tax contingencies.

Insurance—The Company's workers' compensation risks are self-insured in certain states. In addition, other workers' compensation risks and certain levels of insured general liability risks are based on retrospective premiums. The liability for workers' compensation risks is accounted for on a present value basis. Actual claim settlements and expenses incident thereto may differ from the provisions for loss. Other levels of general liability risks have been underwritten by a subsidiary. Operating divisions and subsidiaries have paid premiums, and the insurance subsidiary has provided loss allowances, based upon actuarially-determined estimates.

Litigation—Various suits and claims arising in the ordinary course of business are pending against the Company. In the opinion of management, these suits and claims will not have a material effect on the financial position or results of operations of the Company.

WARRANT DIVIDEND PLAN

On February 28, 1986, the Company adopted a warrant dividend plan in which each holder of common stock is entitled to one common stock purchase right for each share of common stock owned. When exercisable, the nonvoting rights entitle the registered holder to purchase one share of common stock at a price of $60 per share. The rights will become exercisable, and separately tradeable, ten days after a person or group acquires 20% or more of the Company's common stock. In the event the rights become exercisable and thereafter the Company is acquired in a merger or other business combination, each right will entitle the holder to purchase common stock of the surviving corporation, for the exercise price, having a market value of twice the exercise price of the right. Under certain other circumstances, including the acquisition of 25% or more of the Company's common stock, each right will entitle the holder to receive upon payment of the exercise price, shares of common stock with a market value of two times the exercise price. At the Company's option, the rights, prior to becoming exercisable, are redeemable in their entirety at a price of $.025 per right. The rights are subject to adjustment and expire March 19, 1996.

PENSION PLANS

The Company administers non-contributory defined benefit retirement plans for substantially all non-union employees. Funding for the pension plans is based on a review of the specific requirements and on evaluation of the assets and liabilities of each plan. Employees are eligible to participate upon the attainment of age 21 and the completion of one year of service, and benefits are based upon final average salary and years of service. Vesting is based upon years of service.

The Company-administered pension benefit obligations and the assets were valued as of the end of 1992 and 1991. The assets are invested in cash and short-term investments or listed stocks and bonds, including $61,918 and $57,443 of common stock of The Kroger Co. at the end of 1992 and 1991, respectively, and $6,602 of 15½% junior subordinated discount debentures of The Kroger Co. at the end of 1991. The status of the plans at the end of 1992 and 1991 was:

	1992	1991
Actuarial present value of benefit obligations:		
Vested employees	$449,406	$422,451
Non-vested employees	14,750	13,164
Accumulated benefit obligations	464,156	435,615
Additional amounts related to projected salary increases	103,439	97,604
Projected benefit obligations	567,595	533,219
Plan assets at fair value	661,472	659,946
Plan assets in excess of projected benefit obligations	$ 93,877	$126,727
Consisting of:		
Unamortized transitional asset	$ 51,065	$ 60,337
Unamortized prior service cost and net gain	52,349	90,943
Adjustment required to recognize minimum liability	5,426	3,630
Accrued pension cost in Consolidated Balance Sheet	(14,963)	(28,183)
	$ 93,877	$126,727

The components of net periodic pension income for 1992, 1991 and 1990 are as follows:

	1992	1991	1990
Service cost	$ 17,237	$ 13,729	$ 13,304
Interest cost	45,774	42,767	39,965
Return on assets	(35,664)	(150,380)	(3,240)
Net amortization and deferral	(40,384)	86,342	(68,561)
Net periodic pension income for the year	$(13,037)	$ (7,542)	$(18,532)
Assumptions:			
Discount rate	8.5%	8.5%	9.5%
Salary Progression rate	5.5%	5.5%	6.5%
Long-term rate of return on plan assets	10.0%	10.0%	10.0%

The Company also administers certain defined contribution plans for eligible union and non-union employees. The cost of these plans for 1992, 1991 and 1990 was $16,371, $14,617 and $16,296, respectively.

The Company participates in various multi-employer plans for substantially all union employees. Benefits are generally based on a fixed amount for each year of service. Contributions and expense for 1992, 1991 and 1990 were $85,010, $79,735 and $73,813, respectively. Information on the actuarial present value of accumulated plan benefits and net assets available for benefits relating to the multi-employer plans is not available.

POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

In addition to providing pension benefits, the Company provides certain health care and life insurance benefits for retired employees. The majority of the Company's employees may become eligible for these benefits if they reach normal retirement age while employed by the Company. The cost of retiree health care and life insurance benefits is recognized as expense as claims or premiums are paid. For 1992, 1991 and 1990, the combined cost for these benefits was $9,538, $9,746 and $7,451, respectively.

In December, 1990 the Financial Accounting Standards Board issued SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions". The pronouncement is effective for fiscal years beginning after December 15, 1992 although earlier implementation is allowed. The Company will implement the statement in the first quarter 1993 using the immediate recognition approach and, as a result, expects to incur a one time after-tax charge of $140 million to $160 million in the first quarter of 1993. The annual impact of the statement on the Company's future results of operations is expected to be a charge of approximately $10 million after-tax.

Additionally, the expected increase in the annual postretirement benefit expense will not affect the Company's EBITD (earnings before interest, taxes, depreciation, LIFO charge and unusual items) used for the Company's loan covenant calculations. All EBITD based covenants in the Company's Credit Agreement and the indentures underlying approximately $1.4 billion of publicly issued debt are based on generally accepted accounting principles as applied at the date of the agreements. Therefore, the additional expense will be excluded from such calculations.

QUARTERLY DATA (UNAUDITED)

(In thousands of dollars, except per share amounts)

1992	Quarter: First (12 weeks)	Second (12 weeks)	Third (16 weeks)	Fourth (13 weeks 1992) (12 weeks 1991)	Total Year (53 weeks 1992) (52 weeks 1991)
Sales	$5,038,493	$5,072,230	$6,333,076	$5,700,789	$22,144,588
Merchandise costs	3,883,768	3,925,278	4,905,118	4,364,675	17,078,839
Extraordinary loss	(30,270)	(33,895)	(27,292)	(15,646)	(107,103)
Net earnings (loss)	(9,293)	(29,368)	(20,429)	53,147	(5,943)
Primary earnings (loss) per common share:					
Earnings before extraordinary loss	.23	.05	.08	.74	1.11
Extraordinary loss	(.34)	(.37)	(.30)	(.17)	(1.17)
Primary net earnings (loss) per common share	(.11)	(.32)	(.22)	.57	(.06)
Fully-diluted earnings (loss) per common share:					
Earnings before extraordinary loss				.71	
Extraordinary loss				(.15)	
Fully-diluted net earnings per common share				.56	
1991					
Sales	$4,907,131	$5,086,387	$6,228,363	$5,128,649	$21,350,530
Merchandise costs	3,789,111	3,922,847	4,812,868	3,955,754	16,480,580
Extraordinary loss	(5,426)	(1,633)	(2,079)	(11,701)	(20,839)
Net earnings	5,356	30,599	14,484	29,416	79,855
Earnings (loss) per common share:					
Earnings before extraordinary loss	.12	.36	.18	.46	1.12
Extraordinary loss	(.06)	(.02)	(.02)	(.13)	(.23)
Net earnings per common share	.06	.34	.16	.33	.89

Fourth quarter 1992 reflects a LIFO credit of $6,057 compared with a charge of $344 in the fourth quarter 1991. The extraordinary loss in the four quarters of 1992 and 1991 relates to expenses associated with the early retirement of debt. Second and third quarters 1992 were negatively affected by a 67 day strike in Michigan.

Common Stock Price Range

Quarter	1992 High	1992 Low	1991 High	1991 Low
1st	21⅛	16¾	22½	12⅝
2nd	19⅛	15⅝	24½	19⅞
3rd	16	11¼	24½	15⅜
4th	15⅞	11⅜	20	16¼

Under the restated Credit Agreement dated January 21, 1992, the Company is prohibited from paying cash dividends during the term of the Credit Agreement. The Company is permitted to pay dividends in the form of stock of the Company.

SELECTED FINANCIAL DATA

	Fiscal Years Ended				
	January 2, 1993 (53 Weeks)	December 28, 1991 (52 Weeks)	December 29, 1990 (52 Weeks)	December 30, 1989 (52 Weeks)	December 31, 1988 (52 Weeks)
	(In thousands of dollars, except per share amounts)				
Sales from continuing operations	$22,144,588	$21,350,530	$20,260,974	$19,103,671	$19,053,020
Earnings (loss) from continuing operations before extraordinary loss(A)	101,160	100,694	83,290	(16,251)	34,522
Extraordinary loss (net of income tax credit of $65,644 in 1992, $12,772 in 1991, $469 in 1990 and $48,105 in 1989)(B)	(107,103)	(20,839)	(910)	(56,471)	
Net earnings (loss)(A)	(5,943)	79,855	82,380	(72,722)	34,522
Earnings (loss) per share					
Earnings (loss) from continuing operations before extraordinary loss(A)	1.11	1.12	.96	(.23)	.24
Extraordinary loss	(1.17)	(.23)	(.01)	(.69)	
Net earnings (loss)(A)	(.06)	.89	.95	(.92)	.24
Total assets	4,303,084	4,114,351	4,118,542	4,241,987	4,613,399
Long-term obligations, including obligations under capital leases	4,472,978	4,407,764	4,557,838	4,737,393	4,724,461
Shareowners' deficit	(2,700,044)	(2,749,183)	(2,860,461)	(2,965,543)	(2,678,509)
Cash dividends per common share	(C)	(C)	(C)	(C)	.8225
Special dividend per common share					48.69(D)

(A) See Restructuring and Other Credits in the Notes to Consolidated Financial Statements for information pertaining to 1990. During the year ended December 30, 1989 the Company recorded a pre-tax gain of $28,405 from the sale of assets and recorded a $10,362 pre-tax charge to earnings related to the revaluation of various assets. During the year ended December 31, 1988 the Company recorded a pre-tax provision of $195,000 related to a restructuring plan adopted in the fourth quarter 1988.

(B) See Extraordinary Loss in the Notes to Consolidated Financial Statements.

(C) The Company is prohibited from paying cash dividends under the terms of its restated Credit Agreement.

(D) Consisted of a $40 cash dividend and a $17 principal amount of a Junior Subordinated Discount Debenture which had an initial market value of $8.69.

EXECUTIVE OFFICERS

Richard L. Bere
President and Chief
Operating Officer

David B. Dillon
Executive Vice President, and
President, Dillon Companies, Inc.

Donald F. Dufek
Senior Vice President

Paul W. Heldman
Vice President, Secretary and
General Counsel

Michael S. Heschel
Group Vice President and
Chief Information Officer

Lorrence T. Kellar
Group Vice President

Patrick J. Kenney
Senior Vice President

Thomas E. Murphy
Group Vice President

Jack W. Partridge, Jr.
Group Vice President

Joseph A. Pichler
Chairman of the Board and
Chief Executive Officer

Ronald R. Rice
Group Vice President

William J. Sinkula
Executive Vice President and
Chief Financial Officer

Lawrence M. Turner
Vice President and Treasurer

The Company has a variety of plans designed to allow employees to acquire stock in Kroger. Employees of Kroger and its subsidiaries own shares through a profit sharing plan, as well as 401(k) plans and a payroll deduction plan called the Kroger Stock Exchange. If employees have questions concerning their shares in the Kroger Stock Exchange, or if they wish to sell shares they have purchased through this plan, they should contact:

Star Bank, N.A. Cincinnati
P.O. Box 5277
Cincinnati, Ohio 45201
Toll Free 1-800-872-3307

Questions concerning any of the other plans should be directed to the employee's local Human Resources Manager.

SHAREOWNERS: First Chicago Trust Company of New York is Registrar and Transfer Agent for the Company's Common Stock. For questions concerning changes of address, etc., individual shareowners should contact:

First Chicago Trust Company of New York
P.O. Box 3981
New York, New York 10008
1-212-791-6422

For information concerning the 15½% Junior Subordinated Discount Debentures Due 2008, contact:

Bankers Trust Company
P.O. 305050
Nashville, Tennessee 37230
1-800-735-7777

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